Manitoba

REPORT OF THE PROVINCIAL AUDITOR

to the Legislative Assembly
for the fiscal year ended
March 31, 1989

REPORT OF THE
PROVINCIAL AUDITOR

to the Legislative Assembly

for the fiscal year ended

March 31, 1989

TABLE OF CONTENTS

90-03911/

Page

INTRODUCTORY COMMENTS 1

SUMMARY OF CONCERNS AND RECOMMENDATIONS 2

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

General Comments 6

NEW MATTERS

Estimates 6
Accountability for Government Policy Implementation 11
Internal Audit 12
Management Practices 19
Central Management of Information Technology 20
Training 22

STATUS OF MATTERS PREVIOUSLY REPORTED

Planning 25
Budgeting 27
Expenditure Management 28
Ministerial Expense Accounts 28
Financial and Management Information Systems 29
Program Expenditures 31
Department Annual Reports 32
Computer Processing Disaster Recovery Plan 33
Job Evaluation 33
Managerial Resources 34
Personnel Information System 35
Public Accounts Committee 35

AGENCIES AND DEPARTMENTS

NEW MATTERS

Education Manitoba and Public Schools Finance Board 37
Divestiture of Crown Entities 38
Department of Attorney-General 38
Department of Cooperative, Consumer and Corporate Affairs 39

STATUS OF MATTERS PREVIOUSLY REPORTED

Crown Agency Accountability to the Legislature 42
Administrative Practices for Crown Agencies 43
Communities Economic Development Fund 43
Manfor 44
Manitoba Beef Commission 44
Manitoba Development Corporation 44
Manitoba Research Council 45
MTX Telecom Services Inc. 45

TABLE OF CONTENTS

Page

Public Trustee's Office 46
Workers Compensation Board 46
Department of Agriculture 47
Department of Community Services 47
Department of Finance 48
Department of Industry, Trade and Tourism 49
Department of Municipal Affairs 49
Department of Northern Affairs 49
Various Departments - Overexpenditure 50

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE . 51

ACKNOWLEDGEMENTS 57

EXHIBITS

1. Legal provisions 58
2. Scope of audit and reporting procedures 60
3. Organizational chart 68
4. Schedule of Crown agencies whose financial statements were audited and reported on by the Provincial Auditor's Office 69
5. Schedule of departmental funds whose financial statements were audited and reported on by the Provincial Auditor's Office 71
6. Schedule of Crown agencies whose financial statements were audited by private-sector audit firms with an overview audit by the Provincial Auditor's Office 72
7. Report on the audit of the Provincial Auditor's Office 73

INTRODUCTORY COMMENTS

The Provincial Auditor's Act requires the Provincial Auditor to report annually to the Legislative Assembly on the work of his Office and whether he received all the information and explanations he required. In reporting to the Assembly, the Act also requires that he report anything he considers significant and of a nature that should be brought to the Assembly's attention.

This Report has been prepared to meet these requirements and it completes the accountability cycle for the resources provided for the work of the Office. It provides the Members of the Legislative Assembly and the public with information on the results of our work. We outline the approach we take in carrying out our work in the section titled Organization and Activities of the Office and in Exhibit 2, Scope of Audit and Reporting Procedures. The Exhibit provides general information on our mandate and role and mission. The section titled Organization and Activities of the Office focuses on the activities of the Office for the year being reported on.

I am pleased to report that we received all the information and explanations we required.

We report the matters that we consider warrant the attention of the Legislature in the sections of our Report titled Government's Central Management System and Agencies and Departments.

Both of these sections include new matters and the status of matters previously reported to the Legislature.

We summarize what we consider to be the more significant concerns and recommendations in the section titled Summary of Concerns and Recommendations. We also acknowledge the previously reported concerns which have been resolved. It is important to note that most of the audit work completed during the year did not identify matters requiring reporting to the Legislative Assembly.

In addition to our ongoing attest, compliance and broader scope work, we selected operations to audit that we determined warranted reviewing and reporting to the Legislature. In selecting these matters, we took issues we considered to be of concern to Members of the Legislative Assembly, the public and employees. We report those situations where operations were satisfactory as well as situations that require improvement.

We included in our previous Reports, as exhibits, the financial statements of the Government and our attest audit opinion on them. We also included comments on and analysis of significant aspects of the financial statements. The Government's financial statements were not available for release at the time we issued this Report. The debate in the Legislative Assembly was extensive on two important Bills that required Royal Assent before the financial statements could be finalized. The Assembly did not approve the Bills in time for the financial statements to be finalized and printed prior to the statutory release date of our Report. As a result, the related exhibits and comments and analysis are not included in the Report. We will issue a supplementary report on these matters as soon as practicable after the Government has issued the financial statements.

SUMMARY OF CONCERNS AND RECOMMENDATIONS

The matters included in this section are those matters that we consider to be the most significant. These matters are cross-referenced to the pages in the Report that provide further comment:

Government's Central Management System

Estimates (page 6)

A Legislator's main source of information to understand and debate the Government's fiscal plans and operations is the Estimates. We identified opportunities to improve both the information provided to Legislators and the Estimates process.

We recommend the Legislature and the Government consider alternatives that could improve the information provided to Members of the Legislative Assembly and the current Estimates process.

Accountability for Government Policy Implementation (page 11)

There is a need to strengthen the accountability processes to assure Government that its policies are implemented and carried out. We highlighted areas where Government policy has not been fully implemented and is not being followed.

We recommend that Government consider establishing an accountability process with appropriate reporting and monitoring to ensure significant Government policy decisions and initiatives are appropriately implemented and carried out.

Internal Audit (page 12)

We determined that several departments still need to establish an internal audit function to comply with 1982 Government policy. In several of those departments that have established an internal audit function, while progress has been made, the management and audit practices need to be strengthened to more effectively discharge their responsibilities.

We recommend that action be taken to ensure all departments benefit from an internal audit function. We further recommend that action be taken to strengthen internal auditors' management and audit practices.

Management Practices (page 19)

The Government issued its Management Practices Guide in 1987. The Guide sets out Government policy on management practices. In 1988, the Government initiated a three phase program to review Government accounting, management, program delivery and accountability practices. The Government has implemented the recommendations from Phase I. Phase II and Phase III of this program identified opportunities to improve management, program administration, program delivery and accountability practices.

We concur with and support the main findings resulting from these reviews and recommend that the Government develop an action plan to address the issues identified in Phase II and Phase III of the program.

Planning (page 25)

Strategic planning provides the framework on which operational planning should be based. Planning also supports meaningful accountability.

We recommend that the Government continue to act on its commitment to improve planning and take the necessary steps to bring about effective planning for the government as a whole.

Financial and Management Information Systems (page 29, page 45, page 46, page 47, page 49)

We previously commented on the need to enhance the central systems to provide timely information necessary for management and financial purposes. In addition, we have commented that several departments and agencies also needed to improve their individual financial and management information systems. The Department of Finance is responsible for the central systems. Department of Finance officials have recognized the need to improve the central systems and are working towards this objective. Similarly, other departments and agencies such as the Manitoba Research Council, the Public Trustee's Office, the Department of Community Services and the Department of Northern Affairs are working to improve their financial and management information systems.
We recommend that officials continue to work to develop improved financial and management information systems.

Agencies and Departments

Education Manitoba and Public Schools Finance Board (Page 37)

The Public Schools Finance Board (Board) is primarily responsible for arranging the financing and the administration of the Government Support to Education program. However, the actual operation of the Board varies significantly from that provided in legislation. The Board is mainly concerned with and only records in its annual report the capital aspects of the operation of the school divisions. This accounts for less than 10% of the costs of the Government Support to Education program.

We recommend that the Board and Education Manitoba review their mandates and organizational structure as they relate to the Government Support to Education program. We also recommend that future financial statements of the Board be prepared in a manner consistent with the mandate of the Board. The Minister has recently approved an action plan to deal with this matter.

Matters Considered Resolved Or Significantly Improved

The following are concerns and recommendations that we previously identified as being more significant that are considered resolved or substantially improved:

SUMMARY OF CONCERNS AND RECOMMENDATIONS

Budgeting (page 27)

For several years we have recommended that multi-year financial information be made available to the Legislative Assembly, the public and departmental managers. While there are still opportunities for improvement, the Government has taken significant positive steps to develop multi-year budgets. We encourage the Government to work toward providing more detailed information for the year subsequent to the budget year.

Communities Economic Development Fund (page 43)

We previously reported deficiencies in the Fund's management practices. The Fund's Board and officials have taken, and are continuing to take, appropriate action to address previously reported concerns. Therefore, we have removed comment on the Fund from this section of our Report.

Workers Compensation Board (page 46)

Since 1983, we have reported that the Board's operations were not in compliance with legislation. During the year, the Board has taken a number of positive steps to address the issue of compliance with legislation and the need for a sound fiscal policy for funding the Board's operations. For 1989, the Board has set assessment rates at a level sufficient to meet anticipated costs. The Board has also developed a plan for discussion with the Government. The plan is designed to provide the basis to formulate a strategy to address the unfunded liabilities of the Class E Fund. While still not resolved, progress is such that we no longer consider this issue as a more significant concern.

Department of Northern Affairs (page 49)

We previously reported deficiencies in the Department's planning, reporting and comptrollership practices. As a result of Ministerial direction, significant steps are being taken to improve these aspects of the Department's operations. While not fully resolved, action has been taken, and is continuing to be taken, so that this matter is improved to the extent that it no longer appears in this section.

Various Departments - Overexpenditure (page 50)

We previously reported that, for three consecutive years, several departments were incurring expenditures in excess of their legislative spending authority. Because of concerted efforts by central and departmental management, there has been significant improvement during the fiscal year ended March 31, 1989.

In other sections of our Report we identify where significant progress has been made and action is continuing to resolve previously reported concerns. These include:

- Expenditure Management (page 28)
- Ministerial Expense Accounts (page 28)
- Managerial Resources (page 34)
- Personnel Information System (page 35)

SUMMARY OF CONCERNS AND RECOMMENDATIONS

- Manitoba Development Corporation - Cost Allocation (page 44)
- Department of Finance - Interest on Late Tax Payments (page 48)
- Department of Industry, Trade and Tourism - Financial Management (page 49)

There are many challenges facing the Government and its managers. One of the more significant is that of reducing the deficit and demonstrating to the public that the Government can manage its operations within its available means. This is greatly complicated by the pressure for increased funding in many areas of government involvement. There is a need to reduce expenditure and at the same time improve information systems and management practices.

To meet these challenges, the Government needs to consider improving its management and operating practices. The Government needs to:
- develop a corporate strategic plan and longer-term financial plans,
- ensure that department plans complement the corporate plan,
- continue to improve management practices throughout its operations, including its central branches,
- develop its support staff to be able to carry out increased responsibilities,
- improve its internal administrative practices to expect managers to better manage their operations, and
- develop better ways to evaluate managers' performance and hold managers accountable for their performance.

We provide further details on these important issues in later sections of our report.

We recognize that there are several matters in the Report which are difficult to deal with and that some will take considerable time to resolve. We further realize that it would be unreasonable to expect the Government to be able to act to resolve all of our concerns in the next year.

We recommend the Government develop an action plan on a priority basis to address those concerns and recommendations identified as more significant. The action plan should identify individuals or entities that are assigned responsibility for ensuring appropriate action is taken, target dates for expected resolution of the concerns and appropriate reporting processes to inform the Government of the progress being made to resolve the matters.

We see the Government's current initiative on regulatory reform and program evaluation as positive steps to achieving more efficient and effective operations.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

General Comments

The size and complexity of Government is such that a formal management system is required to use resources effectively. Responsibility for the Government's central management system is vested in Treasury Board, with staff assistance from the Department of Finance, (Treasury Board Secretariat and the Comptrollers' Division), and the Civil Service Commission.

Accountability has become increasingly important in the public sector. Over the years, the Government has made improvements to established accountability mechanisms and processes. These include improvements to the Estimates process, annual reports, committees of the Legislature and the audit process. The initiatives recently taken, including Phase I, II and III of the Independent Review, are a continuation of efforts that should lead to improvements. This section of the report includes new matters and the status of actions taken on matters previously reported regarding the Government's central management system.

NEW MATTERS

Estimates

Introduction

The Government establishes policy and sets programs through the Budget and Estimates processes. Members of the Legislative Assembly challenge the Government on its policy and hold the Government accountable for its operations. The Government's 1989 fiscal operations included estimated expenditures of $4.6 billion and estimated revenue of $4.4 billion. These amounts are so large that it is difficult to fully appreciate their magnitude. A well-structured, easy to follow information system is required to support the Estimates and the subsequent accountability process.

A Legislator's and the public's primary sources of government fiscal operating information are: the Budget, the Estimates, the Quarterly Financial Reports, the Public Accounts, and departmental annual reports. The Legislators and the public are also provided with summary comments and analysis of this information through the news media. The Budget and the Estimates are documents that the Government generally provides near the outset of a fiscal year to communicate its intended policy direction and fiscal plans. The Government reports the overview results of its operations on an ongoing basis through the Quarterly Financial Reports. A final accounting for the Government's fiscal plan is provided in the Public Accounts and the departmental annual reports.

The Legislator's main source of information to understand and debate the Government's fiscal plans and operations is the Estimates material. Because of the importance of the Estimates to Legislators and departmental officials, we believed that the Estimates and its processes warranted review. Our objective was to review the Estimates, their development and the debate processes and supporting information and to determine whether possible improvements could be identified. Our approach was to review the processes and information provided to the Legislative Assembly to support the fiscal plans; being the Budget, the Main Estimates and the Supplementary Information for Legislative Review. We also reviewed the process for developing the Estimates.

We reviewed the Estimates process from the perspective of the Legislative Assembly, Executive Government, Central Government Agencies - such as Treasury Board and the Department of Finance - and line departments. We met with Members of the Legislative Assembly, including Government Ministers, senior representatives of central Government agencies and senior departmental officials to obtain their views and concerns with the process and information provided. We also compared elements of the Estimates process in Manitoba with those in several other jurisdictions: Canada, Ontario and British Columbia. We recognize that the other jurisdictions reviewed are significantly larger than Manitoba. However, the processes are all similar.

It is important to note that most jurisdictions in Canada are working to develop an efficient estimates process. In our view, aspects of the process in Manitoba equal or are superior to those of other jurisdictions, particularly regarding information provided to Legislators and the period of time for Estimates debate in the Assembly. Some other jurisdictions have reviewed the information provided to the Legislators in Manitoba and are working to develop processes to provide similar information.

In the following paragraphs, we outline the process in place in Manitoba and the opportunities identified for improving both the process and the information provided to Legislators.

Process

Each year the Government develops a fiscal plan or budget. The Government communicates its intended fiscal plans through the Budget Address in the Legislative Assembly. The Budget Address provides the Members of the Legislative Assembly, the media and the public with the Government's intended direction. It provides highlights of the Province's economy, proposed new initiatives and tax changes. It also provides general information on the Government's financial position and estimates of expenditure and revenue. The Assembly votes on the Budget after eight days of debate. The Assembly can only accept or reject the Budget. Its acceptance at this point amounts to acceptance in principle of the Government's proposed policy direction and fiscal plans.

Section 9 of The Executive Government Organization Act requires that all moneys paid from the Consolidated Fund be authorized by an Act of the Legislature. Depending on the timing of the Budget and the presentation of the Estimates and The Appropriation Act, interim supply bills are usually required to provide funding for operations before The Appropriation Act is passed. When the Legislature is not in session, the Government may issue special warrants to authorize additional expenditures which it considers urgent and immediately required for the public good.

After the Budget Address and prior to introducing The Appropriation Act, the Government tables its Expenditure Estimates. The Legislative Assembly has set a maximum of 240 hours for the debate of the Estimates. The Assembly generally moves into concurrent Committees of Supply to debate the Estimates. The Assembly House Leaders decide on the allocation of the 240 hours for debate on each department's Estimates. When the

240 hours have expired, Estimates debate is concluded. The Government then introduces a bill (Appropriation Act) to provide for the expenditure of funds as debated and approved in Committee.

The Assembly does not vote on statutory expenditure appropriations. These appropriations include public debt and Members' indemnity, allowances and benefits. The information provided to Legislators for these statutory appropriations is at the same level as other voted appropriations.

The Legislative Assembly has only limited alternatives in the Estimates process. The Assembly cannot increase the amount of any appropriation nor can it introduce new funding. It can only approve, reduce or defeat the Estimates as presented.

The Legislative Assembly holds the Government accountable for its fiscal plan and operations through debate on the Expenditure Estimates and other legislative activities such as debate on bills, Question Period, Public Accounts Committee, and other standing committees.

Comparison of Information Between The Estimates and The Public Accounts

The Public Accounts' Statement of Revenue and Expenditure does not report expenditures on the same basis as in the Estimates. While the Statement of Revenue and Expenditure reports expenditures on a sectoral basis, the Estimates presents expenditures on a departmental basis. The Public Accounts does not provide an analysis showing which departmental appropriations are included in which sectoral category. The differences in presentation of information between the Estimates and Public Accounts makes it difficult for a reader to compare the information in the two documents. Accordingly, the information is not as clear as it should be.

We recommend that the Statement of Revenue and Expenditure in the Public Accounts be supported by an analysis indicating departmental expenditure included in the individual sectors.

Development and Debate

Treasury Board develops Estimates instructions and distributes them to departments as a guide to assist departments to prepare their Estimates material. The instructions identify constraints to be recognized and may require the development or the reworking of information under various formats and options. The preparation and review process involves extensive work for Treasury Board, its support staff and departments.

We noted that overall, the Estimates development process does not use current technology to advantage. Some departments are using information technology to much greater advantage than others. Several departments have developed their own individual Estimates systems. This technology has not been effectively used by other departments. In our view, a standardized, automated Estimates preparation system using current technology would enhance the process at the departmental level. We suggest the Government consider devoting resources to develop a standardized automated Estimates system for departments. As previously stated, some departments have already developed automated systems. The Government may want to use one of those systems as a base.

The Government is in the process of reviewing the feasibility of an Integrated Financial Information System. A feature of this system could include the capture and assembly of Estimates details from both a departmental and global perspective. Officials advised that they have already identified this for consideration. We support this initiative.

While the 240 hours assigned to Estimates debate is generous in comparison to other jurisdictions, it has not been sufficient to allow meaningful review of the full range of government spending. Some years certain departmental Estimates only receive a cursory review and others may not be debated at all.

Government operations have become so large and complex that it appears unrealistic to expect the Legislature to review all expenditures. In other jurisdictions, the idea of a specialist committee to examine a selected number of departmental Estimates each year has been considered. In Ontario, for example, a Legislative Standing Committee on Estimates has recently been established to review Estimates. Each year the Committee is expected to review a minimum of six and a maximum of twelve departments' Estimates.

Consideration might be given to determining the practicality of developing Estimates on a two-year cycle. Half the departments might develop two-year Estimates one year, while the other half of the departments might prepare two-year Estimates the next year. This would allow Legislators more time to consider each department's Estimates. Also, if departments only had to prepare Estimates every second year, departmental resources could be used more appropriately. Similarly, Cabinet, Treasury Board and Treasury Board support staff would only need to review the Estimates of one-half of the government departments each year. Their review could be at a more detailed level and be more effective. We recognize that there would have to be a process to allow changes, such as cost of living adjustments, to the Estimates in the second year. Also, there should be flexibility to allow reviews by the Legislature, as determined by the House Leaders.

We recommend that the Legislative Assembly and the Government consider alternatives to the present Estimates process that could improve the efficiency and effectiveness of the process.

Estimates Documentation

To achieve accountability, the Legislative Assembly requires appropriate information at the start of the fiscal year, followed by subsequent suitable accounting and adequate reporting. The better the information provided, the better the Legislative Assembly can exact accountability.

To debate the Estimates and understand the departmental operating plans, Members are provided with the Printed Estimates and, for each department, the Supplementary Information for Legislative Review (Supplements). The Budget, the latest Public Accounts and departmental annual reports are also available to them.

The Printed Estimates of Expenditure are structured by department and by main appropriation within each department. Sub-appropriation information is provided for salaries and other expenditures. However, in some cases, the main appropriation and sub-appropriation structure is not designed to provide the Legislator with full information on the programs/activities carried out within a department. This is especially evident for those departments that operate regional services. Program information, to the extent it is provided, is mainly in the Supplements.

The Supplements are intended to provide Members with a better understanding of departmental operations. We consider the Supplements to be extremely important in that they provide Legislators with some of the needed information they require to review Estimates. Manitoba is ahead of several other jurisdictions in this regard.

However, we believe that the information included in the Supplements could be improved by providing the Legislators with enhanced information on operating costs of significant program/activities, how the program objectives are to be achieved and how expected program results are to be measured. This is important if annual reporting is to move beyond reporting only dollars spent, to reporting on results achieved.

We recommend that the Government consider improving the results-oriented information included in the Supplementary Information for Legislative Review.

The Government is taking action to improve management information systems in several areas. It is also initiating a pilot project which should lead to enhanced effectiveness reporting.

Revenue Estimates are included in the Budget and the Estimates. The Revenue Estimates are not voted on by the Legislative Assembly. The Estimates provide little detail about revenue. The Department of Finance provides a Supplement for departmental revenues. However, this Supplement does not provide information on the two major aspects of government revenue, being revenue from taxation and revenue from the Government of Canada. We recognize that the estimation of revenue is difficult, especially revenue from Canada. In our view, it is important for Members to understand the revenue base.

We recommend that consideration be given to providing the Legislative Assembly with more detailed information on significant revenues in the Supplements.

The Budget and the Estimates provides information on expenditures, revenues and the budgetary deficit. The Budget also provides overview information on borrowing requirements. Debate on the Loan Act provides Members with a further insight into borrowing requirements. The Public Accounts expands on this information after the fact.

For Estimates debate, it might be appropriate for consideration to be given to providing Members with fuller information on the effects of funding expenditures through borrowings. It would be helpful if Members were provided with information available on expected borrowing rates for the borrowing program and the financial implications of the program ie: interest costs and effect on public debt in the near future and on a longer-term basis. We support enhancing the linkage between expenditure and revenue, as presented in the Budget and Estimates, and the residual financing requirements. This would emphasize to Members that funding of proposed programs may increase both debt and debt servicing costs well into the future.

We recommend that consideration be given to providing Members with more complete analysis of the projected deficit and the borrowing program. In our view, this would be beneficial and help all Members and the public appreciate the importance of deficit and debt control.

Conclusion

Our review has identified opportunities that might be considered to improve the Estimates, its development and debate processes and supporting information. We acknowledge the significant ongoing efforts of Treasury Board, its support staff and departments to improve the quality of the information and the development process. However, we believe our suggestions, if implemented, would provide a better basis for accountability.

Accountability for Government Policy Implementation

We note that there is a need to strengthen the accountability processes to assure Government that its policy decisions (via Treasury Board or Cabinet) are appropriately implemented and carried out. Two specific examples help demonstrate this need.

The Internal Audit Guide was approved by Treasury Board in 1982. The Guide was issued to communicate Government policy regarding internal audit. The policy states that departments shall have an internal audit that carries out a systematic review and appraisal for all Government operations for purposes of advising management on internal management policies, practices and controls. We have found that departments are not consistently adhering to the policies in the Guide.

In early 1987, the Government approved the Management Practices Guide. This Guide, approved by Treasury Board, sets out Government policy on management practices. Treasury Board stated that the drive for improvement in management practices must come from deputy ministers and senior managers. The required impetus has not been maintained. We noted that not all senior managers were aware of the Guide or the concepts enunciated in the Guide and that some managers did not have copies of the Guide. Our audit reports and Phase II of the Independent Review identified opportunities to improve management practices within the Government and certain of its agencies significantly funded by the Government.

Both of the above policy initiatives reflected through these Guides are important. They set out Government policy and promote effective management in Government. Government departments, and specifically deputy ministers, have been delegated the responsibility for implementing Government policy. It is intended that they be accountable for implementing and carrying out Government policy. However, there is not an effective accountability process in place to assure Government that its policies are being carried out. The accountability process is not as comprehensive as it should be, is not as clearly set out as it needs to be, and has not been as effective as required. In our view, there should be an accountability process that includes agreement on an overall plan for implementation and reporting. The plan should include scheduled dates for departments to implement specific policies. Part of the plan should require departments to report to Government, on an ongoing basis, progress on implementation or that its significant policies and initiatives have been implemented and are being carried out. The

Government should set out and communicate those significant policies or initiatives that need to be reported on and monitored. This may include policies enunciated in the Management Practices Guide, the Internal Audit Guide, the General Manual of Administration or other important Government initiatives. The Government should assign an entity or individual the responsibility to receive the departmental reports and to monitor departmental accountability reporting.

The consultants who undertook Phase III of the Independent Reviews indicated similar concerns in their report. They recommended a redefinition of many existing organizational relationships. They further recommended the establishment of an Office to provide leadership to government-wide accountability initiatives. They recommended the Office be headed by a deputy minister and report to Treasury Board. The recommendation provided that the Office would have access to agenda, submissions and supporting information concerning major proposals before Cabinet. Staff of the Office would understand and advise as to their accountability implications and ensure the information, explanations and strategic choices that emerge from the accountability initiatives serve the needs of Cabinet. The Office would provide leadership, research support, coordination, advice and assistance to departments who carry the direct responsibility for implementation. Further, the Office would provide expertise and objective information on inter-department analysis of accountability and on the status of accountability initiatives to Cabinet and the Legislature.

The recommendation provided by the consultants in Phase III is one alternative for an organizational structure to carry out this important requirement. However, there are already central agencies of Government in place that could carry out these responsibilities if their mandates were enlarged and sufficient resources provided. These central agencies include the Department of Finance's Treasury Board Secretariat and Comptroller's Division. The responsibility for implementation of Government policy and monitoring accountability needs to be clarified and clearly assigned, with appropriate processes and staff put into place to ensure that these important responsibilities are fulfilled.

We recommend that Government consider establishing an improved accountability process with appropriate reporting and monitoring to ensure significant Government policy decisions and initiatives are appropriately implemented and carried out. The roles, responsibilities and authorities of the officials and/or entities responsible must be clearly set out and communicated throughout government.

Internal Audit

We initiated a cross-government review of internal audit. The objectives of our review were:

A. to determine the extent that internal audit has been established in government departments in accordance with the Government's 1982 Internal Audit Policy, and

B. to determine whether internal audit in government departments are using appropriate management and audit practices to discharge their responsibilities.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

The Institute of Internal Auditors defines internal auditing as an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed.

The Government's internal audit policy states that departments shall have an independent internal audit function that carries out a systematic review and appraisal of all departmental operations for purposes of advising management on internal management policies, practices and controls.

We developed audit criteria for our review by referring to the Internal Audit Guide and the Management Practices Guide, both issued by the Manitoba Government, and the Standards for the Professional Practice of Internal Auditing, issued by The Institute of Internal Auditors, Inc.

A. As detailed in Appendix A, page 18, there are twenty-one government departments. Fourteen have established or arranged for an internal audit section as required by the policy. Of the fourteen, ten departments have full-time internal audit staff. The other four departments have arranged for part-time internal audit staff. Two of these departments have made arrangements to utilize a set percentage of time from an existing accounting staff member to perform internal audits. One department is in the process of hiring a part-time internal auditor. One department has arranged to receive internal audit services from another department's internal auditor. We consider that these departments have adopted an innovative approach to comply with the Government's audit policy. Particular attention will be required to ensure that these arrangements provide adequate audit coverage and appropriate auditor independence.

Seven departments are without internal audit. In our view, there is sufficient activity and expenditure to consider an internal auditor in the Departments of Finance; Culture, Heritage and Recreation; Northern Affairs; and the Civil Service Commission. Each of these departments have been doing some aspects of what an internal audit section would be expected to do. However, we recommend that these departments consider establishing a full-time internal audit section as soon as practicable. We agree that the expenditure and activity levels of the remaining departments may not warrant a full-time auditor. We recommend that these departments seek alternate solutions that will allow them to benefit from the internal audit process.

B. We reviewed the internal audit sections within ten government departments and, for comparative purposes, we also reviewed six Crown agencies. In general, we found that the internal audit sections within agencies were generally using more appropriate management and audit practices to discharge their responsibilities than those in government departments. We acknowledge that most of the agency functions were established at an earlier date and therefore have progressed further in their development. Our review disclosed that several of the management and audit practices in departmental internal audit sections should be improved. This was not unexpected because several of the audit sections are still developing. In addition, several internal audit staff have been transferred from other areas and were not trained in audit practices. While this is not an ideal situation, it is a method which management has used to comply with the internal audit policy. We also recognize that the internal audit sections within government are operating at various levels. Some are conducting mainly financial audits while others are moving towards concentrating on operational or value-for-money audits. Some are operating similar to management consultants and others are operating as administrative resource staff to handle special projects within their departments. In conducting our reviews, we used the same criteria for all internal audit sections, regardless of the type of work they are doing.

Our comments are intendad to assist with the development of the departmental internal audit sections.

1. Internal Audit Policy

A departmental Internal Audit Policy is important. It formally establishes and communicates the purpose, authority and responsibility of internal audit and departmental expectations.

All of the ten internal audit sections reviewed have drafted an Internal Audit Policy. We identified several departures from the guidelines established in the Internal Audit Guide, most notably relating to the definition of audit scope, the reporting responsibilities, authority of internal audit and the responsibilities of the auditee.

We recommend that policies be reviewed to ensure that internal audit is provided with an appropriate operational environment and that the mandated scope addresses the needs and expectations of senior departmental management.

2. Departmental Audit Committee

Direct involvement by an Audit Committee in the audit process should increase the effectiveness of the internal audit process. The Committee can secure senior management commitment towards internal audit and ensure all areas within the department receive appropriate audit consideration. Formally establishing and documenting Audit Committee responsibilities will ensure committee members understand the extent of their responsibilities.

An Audit Committee has been established in six of the ten departments reviewed. In four of these departments, however, the responsibilities of the Audit Committee need to be established and documented.

We recommend that departments establish an Audit Committee with clearly established responsibilities. The Departmental Audit Committee should be chaired by the Deputy Minister and be composed of senior executives. Consideration should be given to having a layperson, or official from another department participate as a member of the Audit Committee.

To operate effectively, internal audit should be independent from the activities and divisions subject to audit. Independence forms the basis of the objectivity with which the auditor must conduct his/her audit work. It is important, therefore, that internal audit operationally report to an organizational level that will ensure a broad range of audit coverage and provide adequate consideration of findings and recommendations. In our view, reporting to an Audit Committee will assist auditor independence.

Of the ten departments reviewed, three internal auditors report to an Audit Committee, three report to the Deputy Minister, three to an Assistant Deputy Minister, and one to a Director.

We recommend that internal auditors report directly to an Audit Committee or alternatively to the Deputy Minister.

3. Planning

We identified opportunities to strengthen the internal audit planning process in several of the departments reviewed. The preparation of appropriate long-term, annual and audit assignment plans by the internal audit manager, with support from the Audit Committee, will ensure internal audit serves the needs of the department.

While all the internal audit sections reviewed prepare annual plans, long-term plans need to be developed in three internal audit sections.

Long-term and annual plans are an effective means of determining whether the auditing needs of the department can be accomplished within a reasonable time frame and with existing staff resources. A key process in the development of long-term and annual plans is the application of a systematic, rational method of assessing the risk associated with the various units of a department and the subsequent priorizing of these units. This process establishes a clear rationale for determining the preliminary audit objectives and scope and for determining the frequency of each scheduled audit. The process also assists in estimating audit budgets. The plans should clearly demonstrate that audit resources will be utilized in an efficient and effective manner and should serve as a benchmark for evaluating the performance of internal audit.

Several of the internal audit sections reviewed could improve their long-term and annual plans by applying the above noted considerations.

Appropriate planning for each audit assignment helps to ensure that audits are performed as efficiently and effectively as practicable. We note the need to perform and to document the assignment planning process in five of the ten internal audit sections reviewed. The audit assignment planning in several of the other sections reviewed could be improved by giving greater consideration to the development of the audit approach, the determination and documentation of the detailed objectives and scope of the audits and the preparation of time budgets. The performance and documentation of audit assignment planning is a generally accepted auditing standard and is clearly an indication that the audit has been conducted with due professional care.

We recommend that appropriate emphasis be placed on the planning practices within internal audit.

4. Audit Criteria

The quality of any audit is largely dependent on the completeness, appropriateness and consistency of the audit and internal control standard criteria identified against which both the design and the operation of management and financial systems can be evaluated. We observed that four of the internal audit sections reviewed should improve their method of identifying audit criteria.

We recommend that a formal process be developed for the identification of audit criteria and internal control standards and that criteria applicable to a particular audit be appropriately documented.

5. Working Paper Documentation

The quality of supporting working papers is an indication of the professionalism and due care with which the audit was conducted. The documentation practices of several internal audit sections should be improved as noted below.

Audit programs are an effective means of ensuring appropriate audit procedures are specified for every audit criteria and internal control to be reviewed. Two internal audit sections reviewed need to develop audit programs. In addition, the programs prepared by six others should be improved by developing a process which clearly links the preparation of audit programs to the internal controls or audit criteria to be tested.

The consistent documentation in the working paper files of audit conclusions with respect to the results of procedures performed and with respect to the accomplishment of audit objectives is required in most of the internal audit sections reviewed.

Appropriate documentation of the audit unit and its component systems is required in most of the internal audit sections reviewed.

We recommend the development of appropriate working paper documentation standards.

6. Supervision and Review

Audit managers should control their operations by direct supervision and timely audit file review. All audit assignments are the responsibility of the internal audit manager. The audit manager must assure that the audits performed by his or her assistants are properly planned and conducted and that working papers appropriately support the findings included in the audit report. Adequate supervisory review is a generally accepted auditing standard and is an indication that the audit has been conducted with due professional care.

In the ten departments reviewed, one internal audit section does not have a manager and one section consists of only one auditor. While self review is still important, supervisory review was not applicable in our review of these sections. We noted that most of the other eight managers need to review and/or appropriately document their review of the audit programs and audit working papers prepared by their audit assistants.

We recommend that audit managers appropriately review audit programs and audit working papers prepared by their assistants and that this review be appropriately documented.

7. Reporting

Management's acceptance of internal audit reports contributes significantly to the effectiveness of internal audit. Reports should be readily understandable, should not assume reader familiarity and should serve as a persuasive vehicle for change in a non-confrontational manner.

We identified that the reporting standards should be strengthened in six of the ten internal audit sections reviewed, most notably with respect to the appropriate development of the audit issue.

We recommend that the reporting standards in internal audit sections be reviewed and amended to ensure maximum effectiveness of the internal audit reports.

A status report should be prepared to provide the Audit Committee or Deputy Minister with sufficient information to evaluate the effectiveness of internal audit. The information contained in a status report should include; a comparison of planned activities against actual audit coverage, with appropriate explanations for variances; major findings; significant unresolved recommendations; and any other matters requiring the Audit Committee's attention.

Four sections still need to prepare formal status reports and others should consider the above noted factors for inclusion in their status reports.

We recommend the preparation of appropriately detailed status reports by internal audit sections. The contents and frequency of preparation of the report should be determined in consultation with the Audit Committee.

We concluded that a central audit resource group would be helpful in assisting Deputy Ministers discharge their responsibilities relating to compliance with internal audit policy. Assistance in the following areas would be beneficial: interpretation of Treasury Board guidelines; developing departmental audit policy; and formulating internal audit procedures. A central audit resource group could also assist internal audit managers in developing audit processes; value-for-money auditing, audit risk assessment, report writing techniques; and determining training and development needs and coordinating related personnel training.

The Internal Management Audit Group (IMAG) is an informal body consisting of Government internal audit managers. In addition to its role as an informational forum, we recommend that IMAG, with leadership and guidance from the central resource group, take a more active role in the development of internal auditing within the Manitoba Government. We see an opportunity for greater involvement of IMAG in the areas noted in previous paragraphs. Internal auditors actively participating as members in the Institute of Internal Auditors is an additional means of maintaining and developing internal audit skills.

APPENDIX A

Status of Internal Audit in Government Departments

Department	Budgeted Expenditure March 31, 1990 (2) $ (000)	Approx. Staff Years (2)	Internal Audit Yes/No	Internal Audit Staff	Provincial Audit Review
Education and Training	857,187	1,760	Yes	3	Yes
Finance	758,818	434	No	N/A	N/A
Family Services	491,481	1,881	Yes	4	Yes
Highways and Transportation	225,481	2,613	Yes	3	Yes
Health	157,119	2,151	Yes	3	Yes
Government Services	149,783	1,226	Yes	2	Yes
Justice	142,453	2,100	Yes	2	Yes
Natural Resources	99,371	1,466	Yes	3	Yes
Agriculture	88,284	679	Yes	2	Yes
Urban Affairs	77,367	19	(1)Yes	*	No
Civil Service Commission	69,863	100	No	N/A	N/A
Rural Development	57,620	282	(1)Yes	*	No
Housing	50,381	255	Yes	2	Yes
Culture, Heritage and Recreation	44,785	321	No	N/A	N/A
Industry, Trade and Technology	37,912	234	(1)Yes	1	No
Northern Affairs	23,934	137	No	N/A	N/A
Labour	15,184	312	Yes	*	Yes
Environment	12,082	276	No	N/A	N/A
Energy and Mines	12,015	193	(1)Yes	*	No
Cooperative, Consumer & Corporate Affairs	7,935	321	No	N/A	N/A
Executive Council	3,288	45	No	N/A	N/A

* Less than one staff year has been devoted to internal audit.

(1) Recently Established.

(2) Source - Departmental Estimates.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

Management Practices

Last year the Government announced a three phase consulting program to review Government accounting practices, management, program delivery and accountability practices. In our last year's Report, we commented on Phase I of this review. Phase I dealt with accounting practices and provided recommendations for accounting policy changes. The recommendations have been implemented.

During 1989, Phase II of the program was completed. Phase II consisted of seven reviews undertaken at the request of the Government. Management consulting firms, selected through a public tender process, carried out the reviews. Phase II identified opportunities for improving management practices, program administration and program delivery in Government departments and Government funded agencies.

The consultants identified several serious concerns and made recommendations to address the findings. The nature of the concerns identified are consistent with matters we have been reporting in recent and previous audits.

One of the main results of the reviews was the consultants' identification of eight key common themes from the seven project reviews. These were:

1. Uncertain policy mandates and unclear program objectives.
2. Inadequate strategic planning of programs at the department or agency level.
3. Unresolved organizational structure issues within departments and between departments.
4. Inadequate program evaluation.
5. Inadequate management information on programs.
6. Evolving and uneasy relationship between Government and external agencies.
7. Inadequate forecasting of future costs of program changes.
8. Lack of program and productivity standards.

These eight themes are significant and indicate there are improvements required to ensure the Government, its departments and programs operate efficiently and effectively.

Following Phase II, Phase III of the program was initiated and a draft report was received prior to the end of the fiscal year. A final report was received early in the new fiscal year. The report recommends a need to strengthen the accountability process throughout government. It recommends that steps be taken to enhance central direction for overall accountability.

More specifically, the report identified that improved accountability is the responsibility of various levels of government, being program managers, senior department managers, senior Government officials and Legislators. The report also identifies a need for more of a leadership role from Treasury Board, the Department of Finance and other central agencies in bringing about improved accountability. The report recommends improved planning, including multi-year planning; effective budgetary control; and effective monitoring and reporting within the government framework, including those agencies funded by Government. The report also recommends that an evaluation process to assess organizational effectiveness be implemented.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

We recognize and support the Government's proactive actions in undertaking these reviews. They are significant. We also realize that the issues identified are difficult and will take time to resolve. It will require substantial effort to deal with these matters.

We recommend that the Government develop an action plan to address the issues identified in the Phase II and Phase III reviews on a priority basis. We recommend that Government assign responsibility to individuals to resolve each of the major concerns. The action plan should have immediate, mid-term and long-term objectives so that the corrective action taken can be assessed and reviewed. Senior officials should monitor the actions taken. Individuals assigned responsibility to resolve and monitor specific issues should develop appropriate progress reports so elected officials can be satisfied with actions taken and ensure that the matters are being effectively resolved.

As we stated, this will not be an easy task. However, in our view, it is necessary. Government is working to address this issue.

Officials advised that the seven departments involved in the Phase II reviews were given the responsibility for follow-up of the identified problems. Action plans have been or are being developed. A contact person has been identified within each department. The eight key themes identified from the Phase II reviews were input as issues under the "accountability" theme of Phase III of the Independent Review. The consultant's report on Phase III, which was tabled in the Legislature on June 28, 1989, recommended the development of an accountability framework for the Government. The Phase II and Phase III reports have been referred to the Management and Reform Committee of Cabinet where they are under consideration.

Central Management of Information Technology

We conducted a review of the processes used by Government to provide central direction over the development and management of computerized information systems.

The main participants responsible for central management of information technology are:

Treasury Board

Treasury Board is responsible for approving policy with respect to information systems. This includes approving annual systems plans and any deviations from Government policy.

Executive Systems Committee

This committee consists of several senior Government officials. It reviews significant information systems issues, including policies, strategies, systems development proposals and related resource allocation issues. It then makes recommendations on these issues to Treasury Board.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

Manitoba Finance - Information Systems Support Branch (ISSB)

ISSB provides support services to Treasury Board through analysis of departmental and agency information technology plans, initiatives and activities. It also provides information systems education, training and technical support to departments and agencies. Currently, it is also responsible for the overall implementation of the Legislative Building information system, including the provision of support to users of the system.

ISSB is also responsible for the development and evaluation of information systems strategies and policies on a government-wide basis. Its goal is to ensure the most efficient and effective use of information technologies across government. It provides recommendations on these issues to the Executive Systems Committee.

Manitoba Data Services

Manitoba Data Services operates as a provider of computer processing facilities to departments and agencies on a fee for service basis.

Our conclusion is that the processes in place provide reasonable direction over the development and management of computerized information systems. However, we also identified some opportunities to improve operations in this area.

Elsewhere in this report, we discuss the importance of planning for effective operations. Planning is a key component in the management of information technology. Although a strategic plan has been developed and approved by Treasury Board and the highlights announced, we believe that the details of the strategic plan should be communicated to all affected parties, so that they can ensure their development plans are consistent with the strategic plan.

Information processing technology is an area of rapid change. It is important that the strategic plan clearly address this. We recommend that the strategic plan be reviewed formally on an annual basis and amended as necessary to ensure the plan is still consistent with the latest developments and expected future trends.

ISSB has initiated a number of steps to improve the systems planning process. It has automated its analyses of departmental and agency information technology plans, initiatives and activities. ISSB now has the information to identify overall trends in information technology across government. This enables ISSB to recommend systems for development on a priorized basis. We recommend that ISSB continue its initiatives in this area. An area of remaining difficulty is the identification of under-utilized technological and staff resources across government for assistance with the Government's technological development secondment program. To the extent that it is practicable, we recommend that information of this nature also be developed.

ISSB has issued an Information Systems Technology Guide (Guide). The purpose of the Guide is to encourage and support a uniform minimum standard for the application of systems processes and to promote a degree of consistency across government. It is also to serve as a common reference source for policy direction, planning requirements, support services and material on information technology methodologies.

This Guide represents an excellent start in communicating Government policies and procedures in the information technology area. However, there are a number of improvements to the Guide we recommend for consideration. To begin with, the Guide does not indicate approval by Treasury Board of the policies contained in the Guide. Such acknowledgement would add to the credibility of the document and clarify its importance to Government managers. We recommend that ISSB indicate the approval by Treasury Board of the policy issues contained in the Guide.

We indicated previously that the strategic plan for information technology should be clearly communicated throughout government. There are two important aspects of operations that are included in the strategic plan. The first is the role and responsibilities of the Executive Systems Committee. These may not be clearly understood by everyone in the information technology community. The second aspect is the technological development secondment program. Under this program, information technology personnel from various departments may be seconded to a project to develop a high priority system. Such secondment is normally carried out on the recommendation of the Executive Systems Committee. We recommend that the section of the Guide dealing with the strategic plan be completed and distributed as soon as practical. This would be an appropriate way to communicate the strategic plan throughout government.

ISSB is involved in a number of ongoing projects which are important to government. We recommend that ISSB periodically report to the Executive Systems Committee and Treasury Board on the progress of its projects so the two bodies know that progress is as expected.

ISSB has agreed to consider the recommendations noted above.

Training

Successive administrations have emphasized that the "people" in government are its most important asset. The Management Practices Guide describes the Government's commitment to fair and equal treatment of employees, a philosophy that people must be managed with diligence and respect, and a requirement for growth and development opportunities.

The planning process described in the Guide provides the direction for human resource allocation decisions. Operational plans which result from the planning and resource decisions should include details about how program objectives will be met. The reporting systems should provide all levels of government with a mechanism for understanding the resources assigned to human resource training and development, the actual resources used in this activity and for evaluating whether departmental activities remain focused on meeting training and development program objectives.

Our Office selected training and development for review because we believe this is a critical aspect of human resource management. Training and development is not limited to formal classroom training. Varied work assignments, a conscious development of role models, succession planning and on-the-job training also contribute to training and development. For example, the Government Services Department has initiated an "Interchange Program" as one management development option. Improved job-related skills can result in increased productivity. Training can also be a means of increasing employee morale. A consistent message can be communicated at all formal training sessions thereby nurturing a healthy corporate culture. New skills and knowledge can be provided to staff within the framework of mid or long-term plans. For example, developing human resources to meet future operational objectives is the aim of Natural Resource's "Water 2010" program.

In a cross-government review of training and development activities, we found that in several instances the reporting system was inadequate. We also found that in many cases the training and development activities were not linked to an overall plan. Sound practices related to managing human resources are not being followed in these areas.

Our review considered the training and development activities taking place in nine Government departments and eight other Government organizations. We also consulted with officials from the Civil Service Commission about central training and development initiatives. We determined, as expected, that the organizational structures addressing training and development differ amongst the entities reviewed. The level of assistance provided to departments from the Civil Service Commission, the use of outside consultants to complete needs assessments and the extent to which staff participated in external seminars also varied significantly. We found that in certain entities, training and development plans are integrated with the overall strategic planning process. Training and development activities are seen to be a response to skill deficiencies identified in employees' performance reviews in a number of organizations, while formal performance management systems are only beginning to develop in others. Concerns were expressed by a number of individuals that training is not given a high priority by Government and that these budgets are vulnerable to reductions.

With respect to the integration of training and development plans with the strategic planning process, we observed that, in general, the overall planning process was much stronger in the Government agencies reviewed than in the departments reviewed. In certain agencies, the training and development activities were used to advantage to strengthen the corporate perspective. The executive members of these agencies supported training and development and a clear link was demonstrated between their corporate strategic plan, their human resource plans and their training and development activities. A corporate perspective is more difficult to achieve amongst Government departments. Nevertheless, we recommend that departments strive to achieve a better link between training and development activities and long-term plans.

With respect to the organizational structures, in some cases training and development coordinators control the entity's training budget and activities centrally. Other entities have a decentralized structure in which their training and development coordinators play a consulting role while line managers control training budgets and activities. The structure influences the way in which results are reported. In the Government departments, training and development costs are captured at two levels. A central training and development budget is monitored within the human resources area and various other amounts related to training are included with other operating costs at the program level. Significant differences exist between the central budget and the actual total departmental expenditures for training and development. In the organizations with decentralized training and development structures where expenditures and activities are fragmented, the organization's overall financial commitment to training and development was not being effectively reported and so could not be evaluated.

The extent by which each program is supported by financial resources for staff training should be clear to all concerned parties. The Members of the Legislative Assembly should be provided with appropriate information in order to fulfill their responsibilities to the electorate. Cabinet must evaluate the results of their strategic decisions and priority determinations. Treasury Board must evaluate training program results and the effect on long-term fiscal planning. The executive management of each entity is responsible for each of the five major management functions; planning, organizing, reporting, controlling and evaluating, within the entity. Training information reported by program or activity by the line managers can assist all levels of government in fulfilling their management responsibilities. The reporting system should be adequate to supply cost-efficient, decision-making information to each level and provide the link between planning and control.

We recommend that each entity produce a summary report of its training and development results. In our view, the Government should assign responsibility for preparing departmental reports and for developing the summary report. This summary report would provide decision makers with vital information. Training and development allocations and costs can be captured as an activity or sub-activity of programs within the existing budgeting and accounting systems. These systems should be used to better advantage by all departments. These reporting systems need to be supplemented with training and development operational reports. Results can then assist decision makers in assessing whether key objectives for training and development have been met. A summary report would also highlight areas where training efforts are being duplicated for common needs within the entity. The appropriate balance between in-house and external training can be examined. The extent to which target groups such as affirmative action groups or new supervisors and managers are being developed can be measured. A summary would also provide information on whether opportunities are being made available to all staff members on an equitable basis.

Many of the formal training courses which the Government departments attend are coordinated centrally by the Civil Service Commission. The Commission has announced a charge-back system which will go into effect April 1, 1990. The new system will encourage departments to weigh the potential benefits of these courses against costs and to consider whether courses meet the participant's and the department's needs. The availability of central training courses enables common needs to be met efficiently by preventing duplication of effort. These courses also provide participants with the opportunity to meet individuals from other departments thereby allowing for an exchange of ideas and cultivating a universal government culture. We view the charge-back system of training costs as a positive step which will provide departments with a more realistic picture of the costs associated with their training decisions. We recommend that the departments take steps to capture these costs in their accounting records in such a way that the evaluation of training and development decisions is meaningful.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

In order to evaluate training results and improve future training decisions, results must be measured against planned objectives. Inadequate reporting of training and development results does not facilitate this evaluation. Inadequate reporting may be due to a perception that the Government considers these activities to be a low priority item. It is essential that the Government and executive management actively demonstrate a commitment to training and development. The Government and executive management must also ensure that the entity's plans are sufficiently comprehensive and link current activities including training and development to long-term objectives. With limited resources available to achieve program objectives, plans must be established to manage human resources appropriately. Appropriate reporting and evaluation of training and development activities is an essential component of the management of this activity.

STATUS OF MATTERS PREVIOUSLY REPORTED

Planning

For several years we have been commenting on the importance of long-range planning on a government-wide basis. We reported in 1986 that we were encouraged by the distribution of a draft of the Management Practices Guide (Guide). We saw the Guide as a logical step in the development of a planned series of management policy initiatives. In 1987 we reported that certain changes were being put into place that would place greater emphasis on the policy issues that form part of the planning process.

The Guide issued in 1987 sets out planning guidelines which apply to departments. We view the principles contained in the Guide, although not directly applicable to agencies, to be a useful yardstick when reviewing planning activities in agencies and other Government organizations.

We recently reviewed the extent to which planning in the Manitoba Government has progressed in certain departments and agencies since the issuance of the Management Practices Guide in 1987. We reviewed four major departments and five Crown agencies.

All of the departments we reviewed were experiencing significant difficulties in implementing the planning guidelines. For example, none of them could supply us with a formal strategic plan which had been approved and communicated to staff members.

Important linkages between strategic planning and operational planning were either non-existent or incompletely developed. In general, we found that the agencies we reviewed have been more successful in formalizing their planning cycle.

Departments were assigned responsibility for implementing improved management practices. We found that insufficient action was being taken by departments to report progress centrally and to monitor progress in implementing the concepts set out in the Guide. Assistance is required for those managers experiencing particular difficulties.

A number of the officials we interviewed cited particular impediments to good planning in government. Some of the impediments identified were:

- Operating in an environment in which there is little information as to Government policies and priorities from a long-term perspective.
- An apparent lack of commitment to planning by the various levels involved in the process.
- A low priority being placed on the planning process.
- Inadequacies in the management information system, especially with respect to operational data.
- Frequent changes in Ministerial and senior management appointments.
- Frequent departmental reorganizations.

While there is no doubt that impediments exist, we look on them as challenges to be overcome in designing an appropriate planning system rather than as a justifiable reason not to move ahead.

We recognize that planning in government is difficult. There are practical limitations on the comprehensiveness and level of detail which can be incorporated into such plans. It is difficult to reconcile the need to reduce detail with the needs of individual program managers to know how their program fits into broad government directions.

The need to strengthen planning was also identified by external consultants in 1989. External consultants completed seven individual studies during Phase II of a three part Independent Review of Government finances, management, program delivery and accountability practices. At the end of Phase II, a summary was prepared which included an identification of eight themes common to the seven studies. One of these themes was the common absence of effective strategic planning. The summary report also noted that "strategic planning at the departmental level can proceed more usefully if it is done within the framework of overall government direction. Where there are community agencies involved in delivery, it makes sense to include them in the formulation of strategic objectives."

An appropriate planning process is important at the program level. Douglas G. Hardle, professor of Economics at the University of Toronto, in his recent survey of federal and provincial legislators and public servants, noted that 74% of respondents felt that program planning was an effective management tool that achieves a more efficient allocation of resources. In our view, planning helps to enable program managers and delivery personnel to have a common understanding of their mission and program objectives, together with a uniform appreciation of expected goals and accomplishments. This planning process is important because it is the foundation without which essential departmental and government-wide planning can be rendered ineffective. The government-wide plans are of prime importance because they permit the Government to communicate its overall strategic plans to the Legislature and to demonstrate how these plans will serve the needs of Manitobans now and into the future.

Phase III of the three part review was also completed in 1989 and resulted in a report entitled "Openness, effectiveness and accountability in the Manitoba Government". While this report did not deal directly with planning issues, these were implicit in its definition of accountability:

> "Accountability has two components. It starts with delegation of authority and responsibility, with a set of expectations and rules to guide decisions and actions. It follows with a reporting obligation to supply comprehensive, understandable and fair information and explanations about how well the responsibility and authority have been discharged."

Planning is an essential part of establishing a set of expectations, decision rules and the format and content of reporting on the extent to which expectations have been met. These are aspects of operational planning. Strategic planning provides the framework within which operational planning can address these important aspects. Planning will have to be strengthened to facilitate moves toward improved accountability.

We recommend that the Government continue to act on its commitment to improve planning and take the necessary steps to bring about effective planning for the government as a whole. Consideration should be given to establishing a reasonable schedule for each department to develop and implement the planning aspects of the Management Practices Guide. Each department should be accountable to forward periodic reports as to its accomplishments in implementing the planning process. The action required includes identifying a position or entity to whom departmental deputies should report their department's progress. This individual or entity should have authority and responsibility to encourage, monitor, evaluate and report on improvements in planning. This individual or entity should be responsible to evaluate the planning model itself to ensure that it remains practical and responsive to the needs of government and all levels of management. The individual or entity should be charged with the responsibility to make periodic progress reports to Treasury Board on this important area of management practice. We further recommend that a process be identified whereby this individual would be able to coordinate his or her efforts with those of the Crown Corporations Council. This would make it easier to ensure a common understanding of the information and planning needs of government and its public sector managers.

Budgeting

We have recommended for several years that the Government develop and publish multi-year financial plans or budgets. The budgets would help in evaluating the financial position and strength of the Province. The Government could show that decisions they make do not extend the Province beyond its financial limits. These multi-year budgets would be valuable to Members of the Legislature during their annual review of the Estimates by providing them with meaningful supporting information. This would help the Members by placing the current budget in perspective with the longer-term plans. In our view, the business community would also benefit from longer-term information. It may aid them in their longer-term planning.

We recognize that developing multi-year budgets is difficult, especially estimating future revenues. However, as set out above, there are benefits to developing practicable multi-year budgets.

The Government has taken significant positive steps to develop multi-year budgets. The Government has required departments to prepare estimates for the budget year plus two future years. This has set standards for future development. The Government continues to direct departments to identify and submit to Treasury Board options to increase key department operations as well as options to reduce ineffective operations. This requires departments to analyze their operations, to consider potential changes and to focus on high priority and longer-term activities. The Government in its Budget for the 1990 fiscal year included revenue and expenditure information on a total government basis for the 1991 fiscal year.

Longer-term budgeting is an important process which helps Government manage and control operations. While we recognize the positive steps the Government has taken, in our view, opportunities exist for further improvement to the process. We recommend that the Government continue to improve information in its Budget relative to future years. In addition to providing detailed information for the budget year, we recommend that the Government provide information for two years subsequent to the budget year. The information for the two subsequent years initially could be estimated revenue, expenditure and deficit information on a total government basis. However, we encourage the Government to consider working towards providing more detailed information for the year subsequent to the budget year.

Officials advised that the Government is committed to implementation of a multi-year budgeting process and is working towards this goal, and significant progress has been made. The Treasury Board Secretariat will continue to develop processes aimed at fostering longer-term fiscal planning activities and improved multi-year budgeting.

Expenditure Management

We previously reported the need for the Government to establish an appropriate expenditure management process. This was necessary to balance the public's expectations for services with the limited resources available.

Treasury Board Secretariat established policies and practices that directed departments to concentrate on expenditure control. These policies and practices, along with departmental actions to control expenditures, contributed to the Government's improved financial position for the 1989 fiscal year. In addition, the Government recently implemented a regulatory review process. This regulatory review has the potential to assist improving the efficiency and effectiveness of the expenditure management process. The Government can bring about further improvement by making managers more responsible and accountable for their operations. The actions taken resolve our concerns.

Ministerial Expense Accounts

Last year we reported the inconsistent policies, set out in the General Manual of Administration, for documentation required to support ministers' claims for reimbursement of expenses. This resulted in different levels of accountability for different types of claims. Our review disclosed that many ministers' claims for reimbursement of expenses did not have adequate documentation to support the claim. We recommended that the Government adopt policies and practices that would provide appropriate accountability for the use of public funds.

Although the Government has not formally amended the policies, the practices regarding documentation provided to support ministers' expense claims have significantly improved. Our 1989 review disclosed that, except for five ministers, ministers' claims for reimbursement of expenses contained adequate documentation to support the claim.

We recognize the significantly improved practices for 1989. However, all ministers' claims should be supported by adequate documentation. We recommend that the Government strengthen the policy and continue to work to improve the documentation practices of all ministers.

Officials advised that while pleased with the improvement, further improvement is necessary to ensure all ministers' claims are supported by adequate documentation. A new policy statement is being developed which will clarify the documentation requirements and thereby strengthen the reporting process. This new policy statement should be finalized shortly.

Financial and Management Information Systems

Last year, in the matter pertaining to the timely completion of Public Accounts, we commented that improvements were needed to enhance the central systems to provide the information necessary for management and financial purposes.

Considerable work needs to be done to improve the Government's financial and management information systems. The Government is not making use of current technology to its maximum benefit. Department of Finance officials have identified this need and have initiated action to develop improved financial and management information systems.

It is recognized that there would be significant costs in developing new systems. However, there should also be benefits and future cost savings.

The Government's major financial and management information systems are a blend of manual and computerized systems. The major systems include the general ledger system, voucher accounting and reporting system, the civil service payroll system, capital finance systems, cash management systems, cash flow systems and estimates system. There are also many other independent and supportive departmental systems.

The major systems should be integrated more effectively. The voucher accounting system and the payroll system are not effectively integrated with the general ledger system. The capital finance, cash management and departmental systems are mainly stand alone systems. They are not integrated with the general ledger system for the efficient production of data, without duplication of effort.

Of particular concern is the voucher accounting and reporting system. The voucher process does not use current technology and is less efficient than it might be. Line departments must prepare request for payment vouchers from invoices they receive and send the vouchers to central agencies for examination, processing and cheque issuance. The Department of Finance repeats work already done by department staff by manually re-keying and verifying voucher details into the system. There are a few exceptions to this, but generally the development work of certain line departments using more advanced technology has not been used to the advantage of the government as a whole. A recent study has indicated that, while volumes have been increasing, it generally takes an average of 37 days from receipt of the invoice to the issuance of a cheque. However, this is an average and invoices can take much longer, some over 60 days. While the average has improved from 45 days, in our view, it is still too lengthy and the process is inefficient. Also, the central system does not provide for a practical commitment system. As a result, many departments have developed their own commitment systems to track their unused spending authority.

The general ledger system does not incorporate the data necessary to produce detailed information for account control or financial statements. Considerable manual effort is also required to update prospectus and other information.

We believe that it is appropriate for the Government to consider acquiring or developing an integrated financial and management information system. Other jurisdictions are using such systems to advantage. The system should allow for integration of the voucher accounting system, the payroll system, capital finance systems, cash management systems, estimates system and significant departmental systems with the general ledger system.

Consideration should be given to utilizing advances in technology to eliminate duplication of effort and to designing the system to allow departments to process invoices for payment through the central system from either their head offices or regional offices. This would eliminate the need for preparing and forwarding vouchers to Finance prior to payment. This would also significantly reduce the time required to issue payments to suppliers. The system should allow for a practical commitment system. The system should have the ability to transfer the information from the payment process into the general ledger.

Departments should also be able to input payroll information and other management information into the system. Such a system should result in an improved general ledger and management reporting system.

Department administrators also expressed a desire for improved timely financial information reporting and an integrated financial management system which operates with greater efficiency.

The Government needs to invest in technology to enable central agency and line departments to operate more efficiently. Studies need to be undertaken to determine measures to eliminate duplicate work to the extent practicable.

Certain Government agencies are far more advanced in information processing technology than the Government. These agencies have improved their financial systems in the past few years. The Manitoba Telephone System and Manitoba Hydro have financial management systems that take advantage of current technology. The University of Manitoba has been using an on-line electronic transfer payment system for certain of its major suppliers. This allows the suppliers to electronically transmit invoices to the University. This significantly increases the efficiency of the University's staff and speeds up the payment process. The Liquor Control Commission is moving to point of sale inventory and reporting systems.

We believe an integrated financial and management information system would help enhance operating efficiency. It could also significantly assist management in strengthening their planning, reporting, controlling and evaluating practices.

As noted previously, the Department of Finance has identified the need for an integrated financial and management information system. They are reviewing their systems to develop a submission to Treasury Board for authority to undertake a full feasibility study for the implementation of such a system. The Department has established a steering committee to monitor and control this project. We fully support this project.

While we acknowledge that significant costs would be involved in developing new systems there should also be significant benefits. We recommend that the Government consider the proposed feasibility study and work towards acquiring an integrated financial and management information system. The system acquired should have appropriate internal control features in place.

Officials advised that the use of current technology in the development of a fully integrated financial information system would seem to offer many opportunities to enhance the efficiency and effectiveness of the Province's financial and management information system. A preliminary study, involving representatives of user departments, is currently underway and will lead to a submission to Treasury Board for authority to proceed further. Replacement of existing systems is a major development effort that will require the establishment of long-term plans for the Government.

Program Expenditures

We previously reported that Government programs did not reflect the actual level of financial support being provided because central departments were paying certain significant expenditures. We also expressed concern that incomplete reporting of program related expenditures weakened the accountability cycle and could lead to decisions based on incomplete information.

The most significant of these expenditures relate to occupancy costs and staff benefits. Also, interest costs related to general Government program debt is not charged to specific programs even if the program results in an intentional increase to the deficit. Occupancy costs and staff benefits approximate $208 million for the current fiscal year (1988 - $194 million):

- Occupancy costs include leasing costs, janitorial services, expenditures related to capital and grants-in-lieu of taxes. The total of these centralized costs approximate $149 million for the fiscal year (1988 - $137 million).
- Staff benefit costs include employer payments for unemployment insurance, Canada Pension, workers' compensation, disability insurance, dental plan costs, and expenditures for the Government's share of pensions paid to retired civil servants. These staff benefit costs approximate $59 million for the fiscal year (1988 - $57 million) in addition to the estimated annual pension benefit costs of approximately $111 million (1988 - $102 million) earned by Members of the Legislative Assembly,

current civil service employees and teachers.

We expect that an appropriate accountability system should provide the information required for cost allocation to be made on a proportional basis. We recommend that the Government undertake a feasibility study to determine the cost of implementing a practical policy to allocate or charge-back significant centrally incurred expenditures to the applicable departments and Crown agencies. We acknowledge and fully support the Civil Service Commission's plan to charge back central training costs effective April 1, 1990.

Officials advised that staff of the Department of Finance's Financial and Management Systems Branch and Treasury Board Secretariat have been working on a project to develop a methodology for program evaluation that includes a detailed costing component that takes into account all relevant costs. It is modelled on the Federal Government's "Most Effective Organization" (MEO) study and could be a good alternative to the development of expensive allocation costing systems. When completed, a report will be presented to Treasury Board.

Department Annual Reports

Departmental annual reports are important documents that complete the accountability cycle for Government operations. They should be issued on a timely basis and should link the actual results and achievements with information and planned expectations, included in departmental estimates material.

We believe that to be useful the reports need to be issued on a timely basis, within six months after the year end. The reports should provide financial accountability. This means comparing actual revenues and expenditures to the estimates and to prior year actuals with explanations of significant variances. The reports should also provide performance accountability. This means that actual achievements should be compared to planned objectives with explanations of variances between achievements and plans. The achievements should also be linked with the expected results reported to the Legislature in the Supplementary Information for Legislative Review. The reports should also present information on the fiscal year basis.

Last year we reviewed a number of annual reports. We found that generally departments are not issuing annual reports on a timely basis. We also found that annual reports generally are not providing the kind of information that is expected and required to demonstrate financial and performance accountability to the Legislature and the public.

On June 5, 1989 the Department of Finance issued draft guidelines for departmental annual reports. The guidelines were developed in cooperation with departments. In our view, implementation of the draft guidelines would resolve our concerns with annual reports.

We recommend that the Government proceed to implement the guidelines for departmental annual reports.

Department of Finance officials advised that the development of the Guidelines is proceeding on a satisfactory basis.

Computer Processing Disaster Recovery Plan

Since 1983, we have expressed concern over the lack of a plan to keep essential services and systems operating if the Government's main computer facility became inoperable. Implementation of a computer processing disaster recovery plan is critical for the Government to maintain essential operations in the wake of a disaster.

Treasury Board has recently approved an Information Security Policy for the Government. This policy sets out standards for information security and disaster recovery.

In accordance with the above noted information security policy, the Department of Finance, Information System Support Branch (ISSB), requires departments to file system plans which includes the following information:

- department critical systems,
- alternate processing arrangements in the event of a disaster,
- priority for the recovery of the system,
- confidentiality of the information and
- the plan for incorporation of adequate security and backup.

ISSB reviews and monitors the information submitted by departments. ISSB's Policy Branch specifically monitors disaster recovery and security information. Departments, in their system plans, identify a security administrator who is responsible for security and disaster recovery. ISSB coordinates professional development programs for the security administrators.

We recognize the positive steps taken by the Department of Finance. However, the Government still needs to decide which systems are critical to the operation of the Government and priorize these critical systems.

We recommend that ISSB submit to the Executive Systems Committee a recommendation as to the critical systems, from a corporate government perspective, and the priority of these critical systems. We further recommend that the Committee review this matter on a priority basis. The Committee should forward their recommendation regarding this matter to Treasury Board for approval. Treasury Board's decision regarding the Government's critical systems and their priority should be communicated throughout the government.

Department of Finance officials informed us that a list of critical systems will be developed from the annual system plans submitted by departments. The list will be reviewed by the Executive Systems Committee and recommendations made to Treasury Board on which should proceed.

Job Evaluation

Last year we recommended that the Civil Service Commission develop a framework for determining the appropriateness of using the grade description or point rated system for classifying positions within the Civil Service. We reported at that time that the Commission intended to act on this recommendation.

We reported that there were two processes to support the current classification system. The first is a sound, well documented methodology for classifying positions. The second is a strategic plan for the proactive review of position classifications across government to ensure that jobs remain properly classified. While we recognize that the Commission has a well documented methodology for classifying positions and conducts certain series reviews, we do not consider our previous concerns resolved. The appropriateness of the classification system in current use has not been evaluated relative to other systems for effectiveness.

Certain Crown agencies have identified the need to enhance their classification systems. Manitoba Hydro and Manitoba Public Insurance Corporation are currently undertaking extensive job evaluations within their respective organizations. Consultants are assisting management in both entities with this review using point-rated systems of classifying jobs. At Manitoba Hydro this is a computer-aided job evaluation system. Several other Crown agencies have recently completed or will be undertaking similar reviews in the near future.

The Government has recently announced its intent to have a review conducted of the recruitment and selection process and the classification system in the Manitoba Civil Service. Outside consultants have been invited to make tender proposals for the review. We consider this to be positive and fully support the review.

We recommend that the proposed review address the effectiveness of the classification system currently in place in relation to alternative systems available. We recommend that effectiveness include the system's ability to support internal equity within departments and across the civil service for all employees.

Officials advised that in the last eight months Commission staff have been reviewing job evaluation systems, procedures, and their application to ensure consistency and equity across departments. Simultaneously, research has been conducted with the Federal Government and all other Provincial Governments and an assessment made of the training needs of personnel practitioners within government departments.

Managerial Resources

We consider the development of an appropriate comprehensive managerial resource management program as an essential ingredient to sound administration on a long-term basis. Last year we reported that the working committee addressing an executive development program drafted a report which had been accepted by the steering committee. At that time, the steering committee was awaiting policy approval by the new Cabinet before full implementation.

A Policy on Executive Development was recently approved by Cabinet. Certain of the policy initiatives are being implemented by the Commission and plans are in place for the remaining initiatives.

We recognize the positive steps which have been taken to address executive development and consider our concerns in this area resolved. Elements of programs being developed for executives could also benefit managers and potential managers at lower levels. Because of the potential benefits, we encourage the Commission to review the possibility of these development programs being tailored to the needs of, and being made available to managers at all levels within the Manitoba Civil Service.

Personnel Information System

Last year we reported that the personnel information system was not being used to its full potential. We recommended that Commission staff promote the utilization of the system by departments, establish a plan to demonstrate to departments the utility of its upgraded system and work towards the elimination of inefficient, duplicate systems.

The Commission had initiated a pilot project for direct on-line enquiry and modified the delivery of its Payroll/Personnel Training Program. The Commission has indicated that the pilot project was successful and several departments are now using the on-line enquiry capability. A steering committee has been set up to further review the system.

We recognize the initiatives that the Commission has taken to increase departmental awareness of the personnel information system. We acknowledge the responsibilities of departments in this area and consider our previous concerns resolved.

Public Accounts Committee

For the past three years we have been recommending improvements to increase the effectiveness of the Standing Committee on Public Accounts. Our more significant recommendations included the Committee's meeting on a timely basis and that senior departmental or agency officials be requested to attend before the Committee to respond to questions by Committee members.

For the past two years the Committee initially met as soon as was practicable. However, the Committee has not completed its review of the Public Accounts and the Provincial Auditor's Report on a timely basis. The Public Accounts and Provincial Auditor's Report for the year ended March 31, 1988 were released in December 1988. The Public Accounts Committee met in January 1989 to complete their review of the 1987 Public Accounts and to consider the 1988 Public Accounts and Provincial Auditor's Report. The Committee completed the review of the 1987 Public Accounts. However, the Committee did not complete the review of the 1988 Public Accounts and Provincial Auditor's Report until October 1989, over 19 months after the 1988 fiscal year end and 9 months after the release of the reports. We recommend that the Committee endeavour to complete its review of the Public Accounts and our Report on a more timely basis.

The Committee also has not requested senior department or agency officials to appear before the Committee to respond to concerns raised in our Report or matters contained in departmental or agency annual reports. In our view, their appearance would significantly enhance department or agency accountability. Management is responsible for resolving concerns raised and for providing the status of progress in resolving the reported concerns. Therefore, it is appropriate for management to update the Committee on the progress of actions being taken. We understand that ministers responsible, together with senior officials, are present at other Legislative committees. We recommend that the Committee consider calling Ministers and their officials to respond to questions concerning progress in resolving concerns raised in our Report and other matters as the

Committee may direct.

We have noted that the Committee has not utilized a working agenda. We believe that an agenda agreed to by members and distributed in advance would improve the efficiency of the Committee. We recommend that the Committee give consideration to having future meetings supported by an agenda.

In the past, Committee members did not have a common understanding as to how the Committee's mandate and approaches compared with the mandates and approaches used by other Public Accounts Committees across Canada. The Canadian Council of Public Accounts Committees recently issued its Guidelines for Public Accounts Committees in Canada. The Guide provides views on a recommended role and responsibilities of Public Accounts Committees, committee membership, resources, meetings and procedures. Committee members have recently been provided with a copy of the guidelines. We recommend that the Committee give consideration to developing specific guidelines for the operation of Manitoba's Standing Committee on Public Accounts. We recommend that the Committee consider taking steps to address our recommendations regarding the timely review of the Public Accounts and the Provincial Auditor's Report, the calling of Ministers and their officials before the Committee, developing guidelines as to the role and responsibilities of the Committee and the preparation of agendas for its meetings.

The Chairman of Manitoba's Public Accounts Committee is exploring means by which the Committee may play a more effective role.

AGENCIES AND DEPARTMENTS

NEW MATTERS

Education Manitoba and Public Schools Finance Board

There is a need to clarify the mandates and review the organizational structures of the Public Schools Finance Board (PSFB) and Education Manitoba as they relate to the Government Support to Education program. It is unclear that these issues are being addressed in a manner consistent with applicable legislation.

The PSFB Act indicates that the objectives of the PSFB are to facilitate the financing of the education support program for school divisions and to assist boards of school divisions in the economic operation of the school system. The PSFB Act also provides that the PSFB may appoint such employees as are necessary to conduct its business and that the Minister may transfer employees of Education Manitoba, as necessary, on a temporary basis.

The PSFB Act provides that the Government Support to Education Fund shall be under the control and supervision of the PSFB. All monies received by the PSFB under the PSFB Act or the Public Schools Act are to be deposited to the credit of this Fund. All payments made by the PSFB under the PSFB Act and the Public Schools Act, including the costs of administering the PSFB, are to be paid from the Fund.

The Public Schools Act directs the PSFB to provide support under the Government Support to Education program to each school division as per the regulations. This Act also requires school divisions to obtain the approval of the PSFB for the disposal of land, buildings and buses. The Act empowers the PSFB to establish regulations with respect to estimates of revenue and expenditure provided to the PSFB by the school divisions. The Act further empowers the PSFB to require employees of municipalities to provide it with information in respect of assessment and taxation as the Board may require. The PSFB is also required to provide the Minister with an estimate of the total cost of the Government Support to Education program.

The conclusion we draw from the foregoing analysis of the two Acts is that the PSFB is primarily responsible for the financing of the Government Support to Education program. However, the actual operation of the Board varies significantly from that provided by the Acts.

In actual practice, the PSFB restricts its attention mainly to the capital side of the operation of the school divisions. That is, the PSFB concerns itself primarily with approval and financing of new schools and major renovations to schools, and acquisition and disposal of land, buildings and buses. This represents less than 10% of the Government Support to Education program. The remaining portion of the program is conducted by employees of Education Manitoba, with only limited recovery from the PSFB. Although the Board conducts a limited review of advances and certain operating grants, these do not receive nearly the same attention by PSFB officials as does the capital program. For example, the annual report of the Board includes commentary only on the capital program. This appears to be at variance to The PSFB Act which requires the Board to report on all its transactions.

One result of this method of operation is that we have had to qualify our opinion on the financial statements of the Board. Because the Board takes a restrictive view of its mandate, Education Manitoba recovers from the Government Support to Education Fund only certain administrative costs incurred in its role of monitoring the capital program and a portion of the operating program. These direct administrative costs do not include overhead costs. Thus the Fund does not appear to be paying for all of the costs of administering the Board as required by the Act. The omission of these costs from the financial statements of the Board has led to our qualification. The omission could also be resulting in indirect subsidies or under assessments to municipal taxpayers.

We recommend that Education Manitoba and the Board conduct a review of their respective mandates as they relate to Government support to education. Legal advice should be sought while conducting this review. Each entity's organizational structure could then be reviewed in the light of the revised mandates. We also recommend that future financial statements of the PSFB be prepared in a manner consistent with the mandate and organizational structure of the PSFB.

At the direction of the Minister, officials of the Board and Education Manitoba have taken action in response to our concerns. They have recently completed a review of the Board's role and mandate. The Minister has approved a departmental action plan to resolve this matter. He has instructed his Department staff to draft legislation to restrict the role of the Board to that which it currently fulfills. The intended changes will encompass the following:

- The Board will continue to have an appointed Chair who reports directly to the Minister;
- The Board will have its own staff who will report to and be directly responsible to the Chair;
- The Board will have direct responsibility and accountability for budgeting and administering the capital programs to schools, and for collection of education support levies;
- The Department will have direct responsibility and accountability for budgeting and administering the operating program to schools. All levy funds for operating purposes will flow through the Board to the Department for that purpose; and
- The Department will continue to coordinate the overall budgeting process for capital and operating programs, and will provide reporting and monitoring of the financial operations of the Department.

Divestiture of Crown Entities

We have arranged to review the Government's processes and procedures regarding its divestiture of Crown entities. We expect this review to be completed by the Fall of 1990. We will provide our comments on the divestiture processes in our 1990 Report to the Legislative Assembly.

Department of Attorney-General

Section 8(1) of the Suitor's Money Act requires that two and five year notices be sent out to suitors advising them of monies paid into the Court of Queen's Bench on their behalf.

The Department is not sending out these notices. As a result, the Department is not complying with the requirements of the Act.

We were advised the notices are not being sent out due to limited staff resources. We were also advised that it is a very time consuming task circularizing approximately 1000 accounts.

We recommend that officials review this matter and take action so that the Court can comply with the legislation.

Officials advised us that they are considering an appropriate amendment to the Act that will resolve this issue.

Department of Cooperative, Consumer and Corporate Affairs

Regulatory Function - Credit Union and Caisses Populaires

Under The Credit Unions and Caisses Populaires Act, the Department is responsible for regulatory functions of credit unions and caisses populaires operating in Manitoba. By legislation, The Credit Union Stabilization Fund, and Le Fonds de Securite des Caisses Populaires (Funds), The Cooperative Credit Society of Manitoba and La Federation des Caisses Populaires du Manitoba (Centrals) have been established in a role supportive of the Department's regulatory functions.

The insolvency of several credit unions and caisses populaires led to the Government being called upon in 1982 to provide financial assistance to the credit union and caisse populaire community. The Government provided this assistance of approximately $3.6 million through interest forgiveness during the fiscal years ended March 31, 1983 to 1988 inclusive.

Since the above arrangement for assistance was finalized, the credit union and caisse populaire community continued to grow significantly. Their accumulated profits or reserves, however, have remained relatively small. These small reserves significantly increase the likelihood of insolvency and a claim being made on the Funds and/or on the Government. Subsequent to the above-described arrangement for provincial assistance, there have been other operational or financial difficulties in the credit union and caisse populaire community. The credit union and caisse populaire community has been able to deal with these difficulties.

In 1987, the Department became concerned with the ability of monitoring systems to identify conditions which might lead to credit union or caisse populaire difficulties. Accordingly, the Department undertook several initiatives. These initiatives included:

- a determination of the reason for the difficulties in a specific credit union;
- an examination of the adequacy of the actions of the major parties associated with the specific credit union;
- a determination of the adequacies of the monitoring system in place at that time; and
- the development of recommendations to lessen the risk of a re-occurrence.

The Department initially contacted our Office when it was starting these various initiatives. The Department's activities to improve its monitoring capabilities were important. Accordingly, we decided to review departmental progress after a reasonable time.

The Department hired consultants to help with these initiatives. The consultant's mandate was to review the Department's regulatory role and to offer recommendations on how the Department could improve the regulatory framework. As a result of this work, the consultants provided a comprehensive report. Their report included several recommendations for improving the regulatory framework.

The main objective of our review was to satisfy ourselves that the Department was developing appropriate processes to enable it to carry out its regulatory mandate. It is important for appropriate monitoring and reporting systems to exist to enable the Department to carry out this mandate. These management functions and the adequacy of reserves became part of our review. We concluded that it was critical for credit unions and caisses populaires to have adequate reserves to reduce the risk to the above-mentioned Funds for financial aid. Adequate resources would also decrease the financial exposure to the Government.

Since undertaking its initiatives, the Department has made significant progress to help strengthen the processes for fulfilling its responsibility. Several improvements have already resulted. Some further work remains to be done, however. This is understandable as the Department is making comprehensive changes to its monitoring and reporting processes. As a result of our review, we observed the following matters.

The Department has not developed an overall action plan which sets out the various mid-term and long-term changes it intends to implement to strengthen its regulatory responsibility. In view of this, it may be appropriate for the Department to review what has been accomplished and to identify the remaining steps that are considered necessary. After identifying the remaining steps, it may then be appropriate for the Department to develop a detailed plan which includes:

- identification of the improvements still required;
- key risk areas that have been identified in the credit union and caisse populaire movements, including key controls and weaknesses in each movement;
- priorization of improvements required; and
- establishment of timeframes, responsibilities and follow-up of the improvements to be implemented.

The Department adopted a less structured approach. As a result, it is not clear when the Department expects to complete its changes to its monitoring processes. We recognize that the Department's ability to implement changes requires the negotiation with and the agreement of other parties. Accordingly, it may be difficult for the Department to establish firm target dates for achieving individual milestones. Notwithstanding this difficulty, we recommend that the Department develop a detailed action plan of the remaining steps to strengthen the regulatory function.

The Department has adopted an informal reporting process on the progress it is making to strengthen the Department's monitoring capabilities. As the Department is making comprehensive changes to its monitoring processes, it is appropriate that the Department's periodic reporting to the Minister and Deputy Minister include certain information. This information should include the status of the changes the Department will be implementing, a timetable for implementing the changes, as well as a comparison of the dates of the actual implementation of the planned changes to the timetable established. We recommend that the Department strengthen its reporting practices to ensure that the Minister and Deputy Minister are fully informed of the progress the Department is making.

We have already seen indications that several credit unions and caisses populaires will likely be unable to meet the minimum reserve levels set out in Regulation 361/87. Accordingly, as permitted by the Regulation, the Funds are considering a policy which will extend the time for credit unions and caisses populaires to meet the reserve levels stipulated in the Regulation. The effect of this policy will be to increase the risk that a claim for financial assistance may be made to the Funds. It also increases the exposure to the Government under the terms of an existing loan guarantee commitment. We are concerned that unless firm action is taken to ensure the accumulation of the reserve levels, the reserve levels required by the above Regulation will likely not be met. We recognize that the Department has played an important role in encouraging the Funds to deal with this matter. We recommend that the Department continue to review carefully the implications of the Funds' approving lower reserve levels on a policy basis. We believe that the Department should be continuing to promote strongly the accumulation of the required reserves.

In our opinion, action to address the above recommendations will aid the Department in fulfilling its responsibilities. Appropriate action will also provide greater assurance that the Government's exposure to a financial claim is minimized.

Officials of the Department have indicated that they are supportive of the recommendations we have made and will work towards implementing them.

The Cooperatives Act

We previously reported to Department officials that a number of cooperatives have neither appointed auditors nor submitted financial statements for departmental review in accordance with The Cooperatives Act.

We were previously informed that the Department was considering amending the legislation. A review of the legislation is still required. We recognize that the requirement for all cooperatives to appoint auditors may be difficult for small cooperatives. However, the submission of financial statements for departmental review is a feature to protect members of the cooperatives.

In our view, legislative changes should be for the purpose of improving the monitoring and controls of cooperatives to protect members and the public.

We recommend that the Department proceed with the planned review of The Cooperative Act as soon as practicable. Once the review is completed, we recommend the Department develop and implement an action plan to ensure compliance with the Act.

Department officials advised that the legislative review was delayed by the departmental reorganization last year. We have also been advised that the legislative review is commencing and is projected to take approximately one year. Changes in regulations will be dealt with as soon as possible. Concerns regarding non-compliance with legislation will be addressed on a priority basis.

The Cemeteries Act

We previously reported to Department officials concerns with respect to the monitoring of cemetery trust accounts by the Public Utilities Board. The lack of a legislative trust account arrangement for services purchased from a cemetery owner leaves consumers unprotected if services are not performed. We are advised that the draft amendment to the Cemeteries Act prepared by Legislative Counsel has been approved by Cabinet for presentation to the Legislature. Implementation of the amendment will improve the Board's ability to monitor trust accounts.

We recommend that the Department take appropriate action so that monitoring of cemetery trust accounts can be undertaken.

Department officials advised that they agree with the recommendation and have presented amendments to the legislation in the current session of the Legislature.

STATUS OF MATTERS PREVIOUSLY REPORTED

Crown Agency Accountability to the Legislature

Last year we recommended that the Government strengthen Crown agency accountability to the Legislature.

Programs operated through Government departments are reflected in the Budget, the Estimates and in Public Accounts. These programs are also subject to considerable scrutiny by the Legislative Assembly through the Budget debate, Estimates review and Public Accounts Committee. The degree of scrutiny and control exercised by the Legislative Assembly over Crown agencies is significantly less than for Government departments and departmental programs.

We realize that the Government appoints Boards of Directors to administer Crown agencies. However, many agencies depend, to some extent, on financial support flowing from the Legislative process. In our view, Crown agencies are public operations and Legislators should have greater opportunity to more closely consider the operations of Crown agencies.

Operating and capital budgets for the organizations owned or controlled by the Government should be made available to the Legislative Assembly. There is also a need for a review to reconsider which Crown agencies should be monitored by the various committees of the Legislature. At present, there are inconsistencies in this monitoring. For example, Crown agencies such as Manitoba Hydro, Manitoba Telephone System,

AGENCIES AND DEPARTMENTS

Communities Economic Development Fund and Manitoba Development Corporation are accountable to committees of the Legislature. Others such as the Universities Grants Commission, the Public Schools Finance Board, the Manitoba Arts Council and the Manitoba Lotteries Foundation are not. We recognize that The Crown Corporations Public Review and Accountability Act serves to enhance Crown agency accountability. Through this Act, the Government has established a Crown Corporation Council to monitor 14 of the Government's agencies. Responsibility for the other Crown agencies is not clear. Also, the Act does not require Crown agencies to be accountable to the Legislature.

We recommend that the Government give further consideration to strengthening Crown agency accountability to the Legislature. It may be appropriate for Legislative committee(s) to review the operating results of Crown agencies on a cyclical basis, with certain selected Crown agencies being reviewed annually, ensuring that all agencies are reviewed at least every five years. When a Committee reviews the operating results of a Crown agency, the Committee members should be provided with the agency's budget. This would enable Committee members to compare actual results to plans and would result in a more meaningful review. This process, and the separate department estimate process, would provide Members of the Legislative Assembly with a better appreciation of overall Government operations.

Administrative Practices for Crown Agencies

There is a need in the Manitoba public sector for greater consistency of administrative practices among Crown agencies. Significant variances in practices between the civil service and Crown agencies also need to be rationalized. The role of Ministers responsible, Boards of Directors and executive management needs to be clarified.

Particular practices we previously identified and reported as requiring rationalization were compensation of chairpersons and chief executive officers, variances between Crown agency compensation and civil service compensation and the payment of professional dues.

The Legislature recently passed The Crown Corporations Public Review and Accountability Act. Part of the duties of the Council created under the Act is to "ensure consistent practices among...corporations where appropriate". Recent changes to deputy minister compensation packages have acted to reduce the differences between agencies and the civil service. We understand that a review is underway with respect to the salary ranges of certain other civil service executives.

The above are positive steps. We recommend that action to resolve these issues be continued on a priority basis.

Communities Economic Development Fund

In previous years, we have expressed concerns about the Fund's management practices and controls. Certain concerns were brought to the attention of the Minister responsible. As a result, we conducted a special audit. This special audit confirmed the validity of these concerns and that certain management practices and procedures required improvement. Subsequently, the management of the Fund has changed.

We have worked closely with the new Board and management to identify opportunities to improve the Fund's practices and procedures.

The Fund has been actively working to strengthen its controls and procedures. The most significant concerns have already been addressed and there is a plan in place to address the remaining concerns. The attest audit for the year ended March 31, 1989 did not identify any new concerns.

Manfor Ltd.

Shortly after March 31, 1989, the Government divested itself of Manfor Ltd. Consequently, the issues we raised previously with respect to the Company's management practices are no longer relevant and will no longer be included in the Report.

Manitoba Beef Commission

The activities of the Commission are currently being wound down. Consequently, the issues we raised previously with respect to the long-term viability of the Commission will no longer be included in this Report.

Manitoba Development Corporation

Cost Allocation

In last year's Report, we recommended that the Corporation take steps to improve the accuracy and completeness of its cost allocation process. During the year, the Corporation took action which resolved our concerns. The Corporation reviewed staffing levels and operating requirements for itself and the Communities Economic Development Fund and incorporated the cost of earned employee pension entitlements into the cost allocation process. The Boards of both organizations have approved the revised cost allocations.

Flyer Industries Limited Divestiture

Effective July 15, 1986, Flyer Industries Limited was sold to BV Carrosseriefabriek den Oudsten en Zonen. The Corporations's most recent estimate of the overall net cost of the divestiture to the Government is $109 million (1988 estimate - $109 million). Approximately $107 million of these costs had been incurred as of March 31, 1989 and a further provision for approximately $2 million, net, has been recorded in MDC records to cover future warranty and other costs.

AGENCIES AND DEPARTMENTS

The Pas Forestry Complex - Receiver

The Receiver's activities concerning The Pas Forestry Complex are substantially complete. However, certain third party proceedings with respect to a settlement still require resolution. It still has not yet been possible to proceed to apply to the Court for discharge of the Receiver.

A summary of the Receiver's accounts, as provided by the Manitoba Development Corporation, for the fiscal years ended September 30, 1988 and 1987 is presented below as a matter of information:

	September	
	1988	1987
Receipts:		
Interest income	$ 23,128	$ 20,305
Disbursements:		
Receiver's operating expenses	-	3,024
Receipts in excess of disbursements	23,128	17,281
Funds on hand, beginning of year	294,003	276,722
Funds on hand, end of year	$ 317,131	$ 294,003
Cash in bank and term deposits	$ 88,496	$ 65,368
Funds on deposit with Minister of Finance	228,635	228,635
Funds on hand, end of year	$ 317,131	$ 294,003

Manitoba Research Council

Last year, we indicated that improvements were required to the Manitoba Research Council's financial information systems and certain aspects of its management practices.

The Council has been actively working on the development of a new computerized financial and management information system. This system is a necessary requirement to improve management practices generally, since it will provide the information necessary to good management.

Management has advised us that they anticipate the system will become operational in the year ending March 31, 1990.

MTX Telecom Services Inc.

The wind-down of MTX Telecom Services Inc. (MTX), the wholly owned subsidiary of the Manitoba Telephone System, has been proceeding in an orderly manner. No adjustment to the provision for loss recorded in the Manitoba Telephone System's financial statements was required in 1989. As the wind-down is not yet complete, a determination of the final costs of MTX cannot be made at this time. Dissolution is expected to occur in 1990.

Public Trustee's Office

Last year, we reported that the Public Trustee's Office (PTO) required a strengthening of its comptrollership function.

Prior to the completion of the financial statements and their audit for the year ended March 31, 1989, it was determined that the PTO had not been processing the amortization of premiums paid on bond purchases properly in the trust equity accounts. The bond premium amortization had been allocated to a suspense account in the trust equity section and had not been distributed to individual trust accounts as required. This situation has existed for several years and has accumulated to approximately $1.8 million. This has resulted in overpayments to trust accounts and it appears doubtful that recovery can be made on those accounts which have been discharged. Officials in the PTO and the Departments of Justice and Finance are working to resolve this matter. We recommend that these matters be addressed as a high priority.

The PTO has recently begun to strengthen important aspects of the comptrollership function and is presently working to implement a new computerized financial and management information system. This system is to be designed in such a way as to provide better and more timely information for the management of the PTO and is to incorporate appropriate internal control features. When this new management information system is in place, the PTO plans to review staffing functions and levels to ensure that these are consistent with the needs of the new system and provide for a strong comptrollership function.

Workers Compensation Board

During the year, the Workers Compensation Board took a number of positive steps to address the issue of compliance with legislation and the need for a sound fiscal policy for funding the Board's operations.

Since 1983, we have reported that the operations of the Board are not in compliance with The Workers Compensation Act. The Act requires the Board to assess employers amounts sufficient to meet all amounts payable during the year. We are aware that there is some ambiguity as to the elements to be included in such amounts. The Class E Fund, representing the general body of employers, has had annual deficits on the year's operations since 1981 and has been in a deficit balance since 1984.

An implementation team, established in 1987 to provide technical research and advice to the Minister on proposed reform of the compensation system, largely completed its work in 1988. Its efforts, together with initiatives of the Board, have resulted in major changes in the Board's approach, organization structure, financial accounting and reporting. For 1989, the Board has set assessment rates at a level sufficient to meet anticipated costs.

The Board has also developed a comprehensive plan, for discussion with Government, which is designed to provide the basis to formulate a strategy to address the unfunded liabilities of the Class E Fund.

These actions are encouraging. We again recommend that the Board continue its efforts and that the Government take the required action to bring the funding activities of the Board into compliance with legislation and to develop a sound fiscal policy for funding the Board's operations.

Department of Agriculture

For the past two years, we have recommended that appropriate action be taken to resolve the delinquent accounts receivable pertaining to the Beef Producers Income Assurance Plan.

Department action to collect the accounts has not been taken and interest has not been charged on the accounts since 1981. One hundred and fifty accounts remain outstanding as at March 31, 1989, totalling approximately $360,000. Had the Department charged interest consistently, we estimate the accounts, due to interest, would be increased by $365,000. To date, the Minister and Department officials have not decided whether to pursue collection of the overdue accounts or to write them off.

In addition to the accounts receivable in the Department, Manitoba Agricultural Credit Corporation (MACC) has related delinquent accounts receivable. These accounts receivable arose when the Corporation lent money to producers in the Beef Income Assurance Plan, to repay their Plan accounts with the Department. MACC has forty-two accounts that remain outstanding as at March 31, 1989 totalling $135,724, including accrued interest of $16,905. The Corporation has provided for the entire balance, including accrued interest, in its allowance for doubtful accounts. The only collection effort on these accounts again this year has been mailing of statements to borrowers.

The Department's and MACC's lack of action has resulted in inequitable treatment of producers. Those producers that have not met their obligations have received a benefit that other producers who adhered to the agreements did not. We do not consider this appropriate.

We again recommend that the Minister, Department and MACC officials take appropriate action to resolve the Beef Producers Income Assurance Plan outstanding accounts.

We have been advised that the issue will be resolved by the end of the 1990 fiscal year.

Department of Community Services

Since 1983, we have been reporting that Departmental management's responsibility for monitoring and controlling of operations has not been effective. During the year, the Department continued to take action to strengthen and improve these management practices. However, significant efforts by the Department are still required to bring its monitoring and controlling responsibilities to an acceptable level.

AGENCIES AND DEPARTMENTS

The Government recently reorganized the Department of Community Services and the Department of Economic Security and Employment Services into a new department, the Department of Family Services. Senior management of the new Department is working to establish an appropriate organization. We are supportive of these efforts by senior management.

We recommend that the new Department's senior management specifically consider actions necessary to strengthen the management practices in the areas transferred from the Department of Community Services. This should include improving their management information systems; strengthening external agency accountability; ensuring that mandated services for child and family service agencies are appropriate, clearly communicated to agencies and effectively carried out by the agencies; implementing improved billing procedures for Treaty Indian child welfare; strengthening Canada Assistance Plan claiming procedures and ensuring an effective internal audit of the areas transferred.

Department of Finance

Self-Supporting Debt

We previously reported that certain issues of Government debt borrowed under the Loan Act and declared to be self-supporting on the date of issue were, with the passage of time and changing circumstances, clearly no longer self-supporting. This is because certain agencies for which the Government borrowed the funds cannot support the debt. In these cases, the debt has either already become, or evidence clearly indicates that it will eventually become, a charge against the Consolidated Fund. Our concern is that information about self-supporting debt, reported in prospectuses and Public Accounts, could be misinterpreted because the specific debt issue has not been reclassified.

The Department has drafted the 1989 Loan Act and has introduced it in the Legislature during the current session. The draft Loan Act separates the borrowing authority from the expenditure authority and purpose of expenditure. In effect, funds borrowed through the issues of debt under authority of the Loan Act now will be generally for self-supporting purposes but not identified to any specific purpose or advance.

We recognize that in the notes to the financial statements, the Government clearly discloses the total valuation allowance against loans, advances and investments funded by self-supporting debt. This is positive and we recommend that this be continued.

We recommend that the Government annually review self-supporting debt to determine that it is properly classified.

Department of Finance officials advised that the Department will annually review the self-supporting debt.

Interest on Late Tax Payments

We previously reported that the Corporation Capital Tax Branch was not charging interest on all late tax payments as required by the Corporation Capital Tax Act. We reported that the Branch was only charging interest against problem accounts where an audit assessment had been made or where collection procedures had begun. Although this matter remained unchanged at March 31, 1989, the Branch acted to resolve this matter early in the 1990 fiscal year. The Branch revised their computer programs to charge interest on all late tax payments. This action resolves our concerns.

Department of Industry, Trade and Tourism

For the last four years we reported that the financial management systems for the Department's predecessors, the Departments of Industry, Trade and Technology and Business Development and Tourism, required strengthening. We also reported that neither department had an internal audit function to carry out systematic reviews and appraisals of the departments' operations.

During the year, the reorganized Department of Industry, Trade and Tourism has significantly strengthened its financial management practices and systems. The Department has also established an internal audit function. These actions resolve our concerns.

Department of Municipal Affairs

Last year we reported that the Department was not complying with section 34(1) of The Municipal Assessment Act. The Act requires the Department to assess all property within municipalities at least once every five years. The Department has been assessing property only once every eight to nine years.

We recommend that the Department continue to work to achieve compliance with legislation as soon as practicable.

Legislation on assessment reform is now before the House. We have been advised that the assessment reform program is proceeding as planned.

Department of Northern Affairs

For the last two years we have reported that the Department needs to improve its management practices. Our concerns related to planning, internal control of operations, reporting and the lack of an internal audit function.

During the year, the Department, under Ministerial direction, took positive action to address the identified concerns. The Department established a Management Services Branch to assist with the Department's planning, reporting and evaluation practices. The Branch developed a planning document that sets out an appropriate policy and process for Departmental planning. The Department has recently implemented the revised process. However, the Department still has to communicate the planning decisions to staff through the development of work plans for each organizational unit and still has to develop longer-term plans.

The Department still needs to improve its internal controls for its operations. We continued to note a need to improve the grant accountability procedures and the performance appraisal system. Also, the Department still needs to comply with the Treasury Board directive to establish an internal audit function. The Department also still has to work to improve its management reporting systems.

We recommend the Department continue to strengthen its management practices. We further recommend the Department comply with the Treasury Board directive and establish an internal audit function.

Department officials stated that they are committed to strengthening their management practices and will consider establishing an internal audit function.

Northern Affairs Fund

The Department administers the Northern Affairs Fund. Last year we reported the Department needed to improve controls for the operations of the Fund. Specifically, the Department had to address tax arrears, improve its controls over the tax roll, more effectively monitor changes in ownership of property and improve its monitoring and auditing of self-administered communities.

During the year we noted some improvement, however, the Department still needs to strengthen its internal controls to bring them to an acceptable level.

We recommend the Department work to strengthen its internal controls for the operations of the Northern Affairs Fund.

Department officials informed us that they are working to strengthen their internal controls for the Fund's operations.

Various Departments - Overexpenditure

We have previously reported concerns regarding departments exceeding legislative spending authority.

Because of concerted efforts by departmental management, there has been a significant improvement during the fiscal year ended March 31, 1989. For 1989, legislative spending authority was exceeded by only $268,268 as compared with $2.2 million in 1988. The 1989 overexpenditures relate to four instances, affecting three departments, compared to eight instances, affecting six departments in 1988. The 1989 overexpenditures have been charged to 1990 operations and paid as late accounts.

In addition to the above-noted instances, two other instances of overexpenditure occurred as a result of adjustments made to the valuation allowance for Crown corporation deficits to comply with the Government's accounting policies.

We do not consider the amount of overexpenditures to be material but report this matter because it reflects non-compliance with legislative authority.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Organization

Our staff complement as at March 31, 1989 was 58 positions (1988 - 58). The 58 positions consisted of 5 executives (management committee); 4 audit manager specialists (2 in computer auditing and 2 in professional practice); 12 audit managers; 33 auditors, technical staff and accounting students (2 of whom are specializing in the use of micro and mainframe computer technology to increase the efficiency and effectiveness of the auditing process) and 4 administrative support staff. Term staff were used to assist the Office in meeting its objectives in peak workload periods.

Included in the 58 positions were 38 professional staff. These professional staff included 20 Chartered Accountants, 10 Certified Management Accountants and 8 Certified General Accountants. Our professional staff maintain memberships in professional accounting associations. This enables staff to keep abreast of new developments and technology in our profession. Our staff personally pay for these memberships.

We continue to contract with an accounting firm to provide the services of a partner who is an internationally recognized computer auditing specialist. He assists us to maintain high standards of professional practice in this fast changing and increasingly complex area of auditing. He also assists in the high level training of our staff in computer systems and technology.

The Office's organizational structure is set out in the Organizational Chart, Exhibit 3. The organizational structure has changed from the preceding year in that the Director of Training and Technology now reports to the Assistant Provincial Auditor.

Activities:

General

We review the way we meet our mandate on an ongoing basis to ensure our responsibilities are being discharged effectively and efficiently. Each year the Office's Executive conducts detailed planning sessions. During these planning sessions we review our strategic plan. This includes carrying out a comprehensive needs assessment, establishing measurable objectives and identifying key results which will measure the achievement of the objectives. From the strategic plan, we establish our required resources and allocate the audit activities to the various audit teams. We prepare our yearly operating budget based upon our strategic plans. During the planning sessions, we also review and establish longer-term plans. We monitor, report and evaluate our operations based on our strategic plans.

Government Audit

We audit the Government of the Province of Manitoba. One of our key responsibilities in this work is the attest audit of the Government's financial statements included in the Public Accounts. We audit each of the departments of Government annually. For the 1989 fiscal year, this included 24 departments (1988 - 26). This is two less than the preceding fiscal year because of Government reorganization which resulted in departments being combined. The Departments of Business Development and Tourism and Industry Trade and Technology were reorganized into the Department of Industry, Trade and Tourism. The Department of Cooperative Development and the Department of Consumer and Corporate Affairs were reorganized into the Department of Cooperative, Consumer and Corporate Affairs. The Department of Crown Investments was wound up and the Senior's Directorate was established. As part of our Government audit, we audit 4 departmental funds as listed in Exhibit 5. This is one more than last year. The Fiscal Stabilization Fund was established effective March 31, 1989.

Our Government audit work includes the pre-audit of government expenditures. For the fiscal year ended March 31, 1989, we examined 468,505 requests for payment, inter-department transfers and journal vouchers (1988 - 459,245).

As part of our audit work on the Department of Finance, we review prospectus material. Input from our Office regarding the review of financial information in prospectus documents may be required when the Government raises funds through borrowings. In 1989 the Province went to the market for 7 new debt issues, plus Canada Pension Plan debentures and Treasury Bills, to raise funds. In addition to this, the Province made several calls and swaps. We were involved in the U.S. Shelf Prospectus filing and 4 of 7 debt issues (1988 - U.S. Shelf Prospectus filing and three of eight debt issues plus the savings bonds). The nature of our involvement varies, depending on the jurisdiction in which the funds are being raised. Our involvement relates to reviewing prepared material, verifying reported operating results and other financial data and commenting on the appropriateness of the financial information included in the prospectus documents. Funds raised through borrowings from the Canada Pension Plan and issues of Treasury Bills do not require input from our Office, as prospectuses are not required.

Agency Audits

We audited 57 Crown agencies this year as compared to 60 agencies last year. The financial statements of these agencies are either reported on, or in process of being reported on, by our Office. The 57 agencies are listed in Exhibit 4 of this report.

Three Crown agencies appointed private-sector auditors during the year and as a result do not appear on Exhibit 4. These agencies are Manfor Ltd., Manitoba Vegetable Producers' Marketing Board and Peak of the Market Sales Ltd. We are supportive of the appointment of private-sector auditors for these agencies.

Project Audits

Project audits are broader scope or compliance audits initiated by our Office. Of the various project audits we carried out during the year, there are six that we wish to draw to your attention. These are:

- A review of the Estimates process.
- A review of the internal audit function.
- A review of central management of information technology.

- A review of training and development within Government and its agencies.
- A review of the planning practices within Government and its agencies.
- A review of Government's monitoring systems for credit unions and caisses populaires.

Overview Audits

We carried out overview audits of the 13 Government agencies listed in Exhibit 6 of this report. The attest audits of these agencies were completed by private-sector audit firms. This is one less overview than we conducted in the previous year. We discontinued the overview audit of the Manitoba Oil and Gas Corporation because of its sale to the private sector.

Special Audits

During the fiscal year ended March 31, 1989 the Office undertook four special audits. The special audits related to the Manitoba Intercultural Council, the Communities Economic Development Fund, the Winnipeg South Child and Family Services agency and the computer equipment records in the Department of Education - Community Colleges. At the time of the Report all special audits have been completed.

Inspection Audits

We carried out two inspection audits during the fiscal year ended March 31, 1989. We audited the Child and Family Services of Central Winnipeg and the Northwest Child and Family Services. The Government is the principal funder of both of these agencies.

Computer Audits

We also reviewed the processes and controls at the Government's computer centre, Manitoba Data Services. The review is based on the Computer Control Guidelines issued by the Canadian Institute of Chartered Accountants. The results of the reviews are made available to the senior officials of departments and Crown agencies.

Staff Training

Several changes occurred in the training and development area. In October 1988, we appointed a new Director of Training and Technology. This person is a professional accountant who is also involved with special audit work. We launched a new series of training seminars for all staff members. In-house seminars were held during the year in the areas of communication and management skills and the use of microcomputer technology.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

During the year, we recognized a need to enhance our performance management system and to link it more clearly with the training and development activities taking place for all staff members. We also saw a need to more closely correlate these activities with the Office's strategic plan. We expect to see initial results from these developments during 1990.

In addition to the in-house courses, we continued to participate in outside conferences and seminars. We attended courses sponsored by the Civil Service Commission, provided staff members with financial assistance for degree and certificate programs, and were involved with outside organizations such as the EDP Auditors' Association, the Internal Auditors' Association and the Institute of Public Administration. Two of our Directors met with their counterparts from other provinces at the Legislative Auditors' Practices Committee. This group facilitates inter-provincial communication on legislative audit practices and related training.

Professional Practices

This area of the Office is responsible for establishing policies and procedures for the conduct of our audit work. We conduct our work in accordance with auditing standards established for the profession in Canada by the Canadian Institute of Chartered Accountants. Periodically, our audit processes are reviewed by the Institute of Chartered Accountants of Manitoba. The results of these reviews have been to confirm that our audit work meets the national standards.

Two enhancements to our processes were initiated during the year. The first was a major updating and reorganization of our internal policy and procedure manual. The objective is to reflect all the significant changes to the practice of auditing occurring over the last several years. This is expected to be completed during the 1990 fiscal year.

The second enhancement was to improve the linkage between our quality control reviews and our training program. We expect to see benefits from this improved linkage during the 1990 fiscal year.

The results of these initiatives will be reported in our next annual report.

Revenue and Expenditure

The revenue and expenditure of the Office for the year ended March 31, 1989 as compared with the estimate, and with the actual revenue and expenditure of the preceding year, are shown below (in thousands of dollars).

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Comparison of Actual Revenue and Expenditure to Estimate - March 31, 1989

	Actual	Estimate	Variance
Revenue	$ 852.5	$ 790.8	$ 61.7
Expenditure:			
Salary	2,360.9	2,384.4	(23.5)
Other	136.7	144.6	(7.9)
	2,497.6	2,529.0	(31.4)
Expenditure over revenue	$ 1,645.1	$ 1,738.2	$ 93.1

Comparison of Actual Revenue and Expenditure to the Preceding Year

	Actual		
	March 31 1989	March 31 1988	Increase (Decrease)
Revenue	$ 852.5	$ 772.8	$ 79.7
Expenditure:			
Salary	2,360.9	2,298.9	62.0
Other	136.7	185.4	(48.7)
	2,497.6	2,484.3	13.3
Expenditure over revenue	$ 1,645.1	$ 1,711.5	$(66.4)

Variance Explanations:

Revenue

The increase in actual over the estimate results from a combination of late receipt of previous year billings, four new audits and a small increase in the billing rate.

Expenditure

The decrease in other expenditures from the previous year is attributable to an acceleration of our program to increase the use of microcomputer technology in 1988. In 1989, the focus of our efforts shifted to implementation of the technology already acquired.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Audit of the Accounts of the Provincial Auditor's Office

A professional accountant from the Comptroller's Division of the Department of Finance carried out an audit of the accounts of the Office of the Provincial Auditor in accordance with section 19 of The Provincial Auditor's Act. A copy of the audit report issued by the Comptroller is included as Exhibit 7 of this Report.

Meeting of Legislative Auditors

The Canadian Conference of Legislative Auditors is an informal association of the legislative auditors of Canada and the Provinces. The sixteenth annual conference was held during the fiscal year ended March 31, 1989. These meetings, which we attend, serve as an excellent forum for the exchange of information on matters of mutual interest, and the discussion of technical information important to the work of our Offices. They are held in conjunction with the Canadian Council of Public Accounts Committees and include joint sessions where legislative auditors and public accounts committee members explore issues of mutual interest.

Participation on Professional Committees

Members of the Office participate on various committees of the Canadian Institute of Chartered Accountants (CICA) and the Institute of Chartered Accountants of Manitoba (ICAM). The Provincial Auditor is a member of the Public Sector Accounting and Auditing Committee (PSAAC) of the CICA and has been assisting on a subcommittee examining the nature of the Government reporting entity. The Assistant Provincial Auditor and Director of Professional Practices participate as associates of PSAAC.

The Director of Professional Practices is a member of the Office Practices Advisory Committee of ICAM.

Through participation on these committees, staff of the Office keep abreast of developments in public sector auditing and accounting. They also make a contribution to these developments.

ACKNOWLEDGEMENTS

My staff and I wish to express our appreciation to ministers, chairpersons, officials and staff of departments, Crown agencies and grantees for the cooperation and assistance they provided during the course of our audits.

We would also like to thank the members of the Legislative Assembly, the media and the public for their assistance, understanding and support.

I also wish to express my appreciation to my staff for their commitment to meeting the objectives of the Office during the past year.

F. H. Jackson, CA
Provincial Auditor

December 18, 1989
Winnipeg, Manitoba

LEGAL PROVISIONS

Exhibit 1

The Provincial Auditor and his staff operate under the authority of the Provincial Auditors Act. Significant sections of the Act regarding our reporting responsibilities follow.

Report to Assembly

13(1) The Provincial Auditor shall report annually to the assembly

(a) on the work of his office; and

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Content of the Report

13(1.1) Each report of the Provincial Auditor under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the assembly, including any cases in which he has observed

(a) that accounts have not been faithfully and properly maintained or public moneys which are required by law to be fully accounted for and paid into the Consolidated Fund have not been so accounted for and paid;

(b) that essential records have not been maintained or that the rules and procedures applied have been insufficient

(i) to safeguard and control public property, or

(ii) to secure an effective check on the assessment, collection and proper allocation of the revenue, or

(iii) to ensure that expenditures have been made only as authorized; and

(c) that public moneys have been expended other than for the purposes for which it was appropriated by the Legislature.

Submission of Report

13(2) The report of the Provincial Auditor shall, on or before the thirty-first day of December next after the close of the fiscal year for which it was made, be delivered to the Lieutenant Governor in Council to be laid before the assembly if it is then in session, or, if the assembly is not then in session, within fifteen days after the commencement of the next ensuing session.

LEGAL PROVISIONS

Exhibit 1

Report on Government Statements

14 The Provincial Auditor shall examine the several financial statements required to be included in the Public Accounts under The Financial Administration Act, and any other statements which the member of the Executive Council charged with the administration of The Financial Administration Act may present for audit, and shall express his opinion as to whether they fairly present information in accordance with accounting policies of the Government stated in the Public Accounts and on a basis consistent with that of the preceding year together with any reservations he may have with respect thereto.

SCOPE OF AUDIT AND REPORTING PROCEDURES

Exhibit 2

Role and Mission of the Office

The Provincial Auditor is an independent officer of the Legislative Assembly and is accountable to the Legislative Assembly. The Provincial Auditor's Act sets out the Provincial Auditor's mandate.

The Provincial Auditor is required to carry out audits and report any cases where he has observed matters which he considers to be "of significance" and "of a nature" that should be reported to the Legislative Assembly. This provides a process for independent, objective assessment of the accountability reporting and the administrative practices and controls of the Government, its agencies and recipients of public moneys. To fulfill its mandate the Office carries out attest, compliance and broader scope audits of the Government, the Crown agencies listed in Exhibit 4, and departmental funds listed in Exhibit 5; broader scope and compliance audits of the Government agencies listed in Exhibit 6, whose attest audits are carried out by private-sector audit firms; inspection audits of selected recipients of public monies and; special audits, at the direction of the Lieutenant-Governor in Council or the Minister of Finance, provided they do not interfere with the Office's primary responsibilities.

Attest audits involve the expression of professional opinions on:

- the annual financial statements of the Government, those Crown agencies where the Provincial Auditor has been appointed attest auditor (Exhibit 4) and departmental funds (Exhibit 5);
- prospectus documents when the Government raises funds through borrowings; and
- financial reports on cost sharing arrangements.

Compliance audits involve:

- the examination of requests for payment from the Consolidated Fund; and
- reporting to the Legislative Assembly and Ministers of the Government cases observed where:
  - expenditures from the Consolidated Fund have been made without authority;
  - expenditures exceed the approved legislative vote;
  - expenditures have been made for purposes other than as voted by the Legislature; and
  - there has been non-compliance with applicable legislation.

Broader scope audits involve reporting to the Legislative Assembly and Ministers of the Government on the adequacy of management practices and controls, including those intended to safeguard assets and promote economic, efficient and effective use of resources. The audits are conducted to examine and report on the administrative, financial and accountability systems, including internal controls and organizational relationships within Government, Crown agencies and recipients of public funds.

The role and mission of the Office of the Provincial Auditor is to serve the Members of the Legislative Assembly and the public by providing independent audit opinions on Government and agency financial statements and evaluations on the financial and

SCOPE OF AUDIT AND REPORTING PROCEDURES

Exhibit 2

administrative management of the Government, its agencies and grant recipients. The Office also exists to promote improvement in financial and administrative management and accountability.

The Office of the Provincial Auditor assists the Legislative Assembly fulfill its responsibility for the administration of public funds by providing assurances as to the credibility of management reports and other information and by providing assessments of management practices and controls.

The role and mission of the Office of the Provincial Auditor must be viewed in relation to two key concepts: accountability and audit.

Accountability can be defined as the obligation to answer for a responsibility that has been delegated. It presumes the existence of at least two parties; one who allocates responsibility and one who accepts it with the undertaking to report upon the manner in which it has been discharged.

Audit can be defined as a process that is superimposed on an accountability relationship. It is carried out to establish that accountability reporting on the responsibility assumed is correct or fair. An audit is usually performed by a third party, primarily serving the interests of the party who delegated the responsibility. Audit results are normally communicated in formal audit reports.

One of the key objectives of the Office of the Provincial Auditor is to examine the administrative accountability of the Government to the Legislature. We also consider accountability relationships within Government administration, including those within departments and agencies, as part of the scope of our audits. The work of the Office provides independent information, advice and assurance to the Legislature and the public regarding accountability. As such it is an important link in the chain of accountability and stewardship of public funds.

In fulfilling its role and mission, the Office endorses the following basic philosophies:

- promotion of a service as opposed to a control function;
- development of a constructive, cooperative approach to improving administrative practices;
- maintenance of sound administrative practices within our own Office in such areas as budgeting, expenditure control, staff training and management;
- recognition that staff are the prime resource for the development of improved systems and procedures; and
- promotion of generally accepted accounting principles for the public sector.

Our annual Report to the Legislative Assembly is the most important output from our activities. Our Report completes the Office's accountability cycle by reporting to the Assembly on the use of resources provided to the Office and the results of its work.

Our work results in recommendations for improving the financial and administrative management and accountability practices of Government, its agencies and grant recipients. The focus of these recommendations is the protection and prudent management of public resources.

The following paragraphs provide further detail on our activities and our reporting procedures.

Audits of the Provincial Government, Crown Agencies and Departmental Funds Entirely Audited by the Provincial Auditor

The Office performs audits of the Government of the Province of Manitoba, the Crown agencies listed in Exhibit 4, and departmental funds listed in Exhibit 5, using a systems based audit approach under the direction of professional accountants. These audits consist of the following four components:

I. We undertake attest audits to express an opinion on the fairness of the presentation of the financial statements developed by Government or Crown agency officials. We conduct our examination in accordance with generally accepted auditing standards. This includes a general review and evaluation of the accounting procedures and internal financial controls, together with such tests of key financial controls, accounting records, and supporting evidence as are considered necessary in the circumstances.

2. We examine requests for payment from the Consolidated Fund as departments present them to the central system for processing. These examinations fall within the scope of our compliance or broader scope audit work. The examination meets the pre-audit requirements of sections 10 and 11 of The Provincial Auditor's Act. The pre-audit process also provides early detection of weaknesses or problems so prompt corrective action can be taken. This process also enables the Office to examine special and unusual payments on a timely basis. The examination of payments from the Consolidated Fund consists of the following:

    a) We examine all requests for payment for legislative authority and approval by designated officials. During this work, we review all significant requests for payment to satisfy ourselves that they are being handled in a business-like manner to protect the Province's interests. This work includes checking requests for payment to contracts, Orders-in-Council, and Treasury Board minutes. We would refuse requests for payment not meeting the above requirements. Where legislative authority for payment is lacking, payments cannot be made. Payment requests that we refuse for other reasons can only be made by the special authority of the Minister of Finance. Audit observations arising from this process are normally attended to in a satisfactory manner to prevent any need for refusal. However, should there be a refusal which requires the special authority of the Minister of Finance, we would report the particulars to the Legislative Assembly in this Report. We did not have to refuse any requests for payment in the past year.

SCOPE OF AUDIT AND REPORTING PROCEDURES

Exhibit 2

b) We test check requests for payment for completeness of supporting documentation, compliance with Government directives, etc. to satisfy ourselves that the departmental purchasing, payroll and disbursements systems are operating satisfactorily. Matters noted requiring further attention are considered in the evaluation of the departmental systems, and in the development of audit recommendations for improvement. If the testing and evaluation of departmental systems reveals a breakdown, and we conclude that the work being carried out by departmental personnel could not be relied upon to safeguard provincial funds, we would refuse further requests for payment. In such an instance, in accordance with The Provincial Auditor's Act, payments could only then be made on the special authority of the Minister of Finance. Departmental systems are normally corrected to incorporate audit recommendations for improvement on an ongoing basis to maintain the integrity of the systems. However, should this not be done and we had to refuse payment requests, we would report the matter to the Legislative Assembly in this Report. We did not have to refuse payments in the past year.

3. We examine the financial and administrative management practices and the related key internal controls to ascertain that the entity is organized and operating in an appropriate manner. These examinations are broader scope audits. The objective of this work is to satisfy ourselves that the financial and administrative practices of the entity give due regard to matters regarding economy, efficiency and effectiveness. We carry out this examination within the capabilities of professional accountants with specialized training and experience. In reviewing the administrative management practices, we use the Government's Management Practices Guide as a standard. The examination includes a review of:
   - the entity's objectives and planning practices,
   - its organizational structure,
   - its budgeting and monitoring systems for comparing actual results with budgets and plans and determining variance explanations,
   - its reporting and evaluation practices including the internal audit system,
   - its purchasing and personnel procedures and
   - its adherence to Government guidelines.

4. We audit to determine that the entity is complying with legislation.

5. We may undertake a more in-depth investigation of specific concerns raised or observed during the above-mentioned examinations or noted from other sources. Such other sources may be:
   - the Legislative Assembly or any of its committees,
   - the Lieutenant Governor in Council or the Minister of Finance, provided this does not interfere with our primary responsibilities,
   - the news media and
   - elected members, public servants and the general public.

We consider the sources of this information to be strictly confidential.

SCOPE OF AUDIT AND REPORTING PROCEDURES

Exhibit 2

Overview Audits of Crown Agencies Whose Financial Statements Were Audited by Private-Sector Audit Firms

We carry out overview audits for those Crown agencies listed in Exhibit 6. These are agencies for which audit firms were appointed to carry out financial attest audits on the financial statements. The audits conducted by the audit firms are of a kind as described in component 1. Our overview audits consist of a review of the audited financial statements, management reports of the audit firms and matters of a broader scope nature as described in components 3, 4 and 5.

Special Audits

Section 15 of the Provincial Auditor's Act provides authority for the Provincial Auditor to undertake special audits. Special audits may be undertaken as considered appropriate and as requested. The Lieutenant Governor in Council or the member of the Executive Council charged with the administration of The Financial Administration Act may request the Provincial Auditor to undertake special audits. If the audit does not interfere with the Office's primary responsibilities, the Provincial Auditor accepts the special audit and gives it a high priority. The special audits may relate to any aspect of operation and may encompass procedures as previously described in components 1, 3, 4 and 5.

Inspection Audits

We conduct inspection audits of recipients of public funds under the authority of section 17(4) of The Provincial Auditor's Act. The audit procedures are similar to those of the management overview audits described previously in components 3 and 4. These audits are limited in number. We review a much larger number of grantees for accountability during the audits of the Government departments and Crown agencies. These reviews mainly consist of an evaluation of the adequacy of the grantors' systems to monitor the grantees' accountability of funds received. We also assess grant accountability concerns observed by the grantor and determine if the grantor has taken corrective action.

Involvement in Prospectuses

The Government of the Province of Manitoba raises funds in financial markets to meet a portion of its requirements. The Government uses the funds to:

- finance general Government programs,
- provide advances to Crown corporations and agencies for programs and capital projects, and
- replace maturing debt.

The Government raises the funds it requires through the issuance of debt instruments. The Government has raised funds in Canada, the United States of America, Europe, and the Orient. The issuance of prospectuses is an important part of raising funds. Prospectuses are essential documents, as they help potential investors evaluate the attractiveness of purchasing Manitoba Government debt instruments. The various jurisdictions in which the Government raises funds have different informational requirements. In some jurisdictions, the prospectus documents must include comprehensive historical and financial information about Manitoba, the Government's financial condition and operations. In addition, information about the operations of major Crown entities established by the Government is required. Other jurisdictions have less stringent informational requirements. The United States and Canada require input from our Office regarding a review of financial information included in the prospectus document.

Over the past several years, the Government has approached the financial markets frequently to raise the cash it needs. Because of the importance of the prospectus document to the potential investor, we spend considerable effort fulfilling our professional responsibilities in satisfying ourselves of the reasonableness of the information included in the various prospectus documents.

Reporting Procedures

Reporting on Financial Statements

We issue attest audit opinion reports on the fairness of the presentation of information in the financial statements of the Government of the Province of Manitoba, of the Crown agencies listed in Exhibit 4 and of the departmental funds listed in Exhibit 5. Regarding financial statements of the Government, we provide an attest audit opinion report on our examination of the Government's Summary financial statements. We also provide an attest audit opinion report on the Government's Consolidated Fund financial statements.

Attest Audit Opinion Reports

Standard attest audit opinion reports include two paragraphs. The first is a paragraph which refers to the scope of our audit. The last paragraph expresses an opinion on the financial statements. We provide further details concerning these two standard paragraphs.

The first paragraph of the report indicates which financial statements have been examined. It also contains a reference to the nature of the audit work performed. The phrase, "generally accepted auditing standards" relates to three broad standards.

> The first is a general standard dealing with the persons performing the work. The work is to be performed by persons having appropriate technical training and proficiency in auditing. It also relates to the expectation that the audit is to be performed with due care and with an objective state of mind.
>
> The second standard relates to the audit work performed. The audit work is to be adequately planned, properly executed and supervised. In addition, there is to be an appropriately organized study, testing and evaluation of those controls on which the auditor will be relying upon in determining the nature, extent and timing of audit procedures to be performed. The

SCOPE OF AUDIT AND REPORTING PROCEDURES

examination standard also requires that sufficient and appropriate audit evidence be obtained to provide a reasonable basis to support the content of the report.

We seek reasonable assurance that information provided in the financial statements, taken as a whole, is fairly presented. We undertake audit procedures designed to assess the fairness of the financial statement representations. Absolute audit assurance regarding the fairness in presentation is not possible. Accordingly, the evidence accumulated during an audit does not guarantee absolute precision.

The third standard relates to reporting. Reference to the scope of the audit examination in the report is required. This standard also provides direction regarding the contents in the report. Reference is made to "such tests and other procedures as were considered necessary". It is impractical to examine all transactions. Accordingly, we perform many procedures on a test basis. We exercise professional judgement in determining the procedures we undertake and their extent. The report also indicates whether limitations or restrictions were placed upon the audit process.

The last paragraph of the report expresses our opinion on the basis of the evidence obtained on the management representations included in the financial statements. We exercise judgement in forming our opinion as to whether the information contained in the financial statements "present fairly" the financial position of the Government, its agencies or departmental funds and the results of operations and changes that have occurred during the fiscal year. We exercise professional judgement about the appropriateness of the accounting principles adopted during the development of the financial statements. We also exercise professional judgement about the adequacy of the presentation adopted within the financial statements. Consistency with the disclosed basis of accounting is the first standard for comparison in determining our opinion for reporting on the financial statements. We evaluate the accounting policies to determine whether they are appropriate under the circumstances. For the financial statements of the Government, its agencies and departmental funds, we use recommendations developed by the Canadian Institute of Chartered Accountants as a guide to evaluate the accounting policies. If we conclude that the accounting policies are not appropriate, our report would indicate our reservation. Changes in accounting principles between fiscal years could have a significant impact upon the comparability of reported amounts. Therefore, our audit report also indicates whether there is comparability of financial statements between fiscal years. This reporting aspect is embodied in the phrase "basis consistent with that of the preceding year".

Internal Reporting

During our audits, observed instances of non-compliance with legislation, weaknesses in internal control, ineffective financial and administrative management practices, records not being up-to-date and any other deficiencies or irregularities are brought to the attention of the officials concerned for appropriate action. Matters which warrant the attention of

Exhibit 2

ministers and chairpersons of the boards of Crown agencies are directed to them and to the Minister of Finance in written reports. During subsequent visits, we follow up these matters to ascertain whether appropriate corrective action has been taken.

Report to the Legislative Assembly

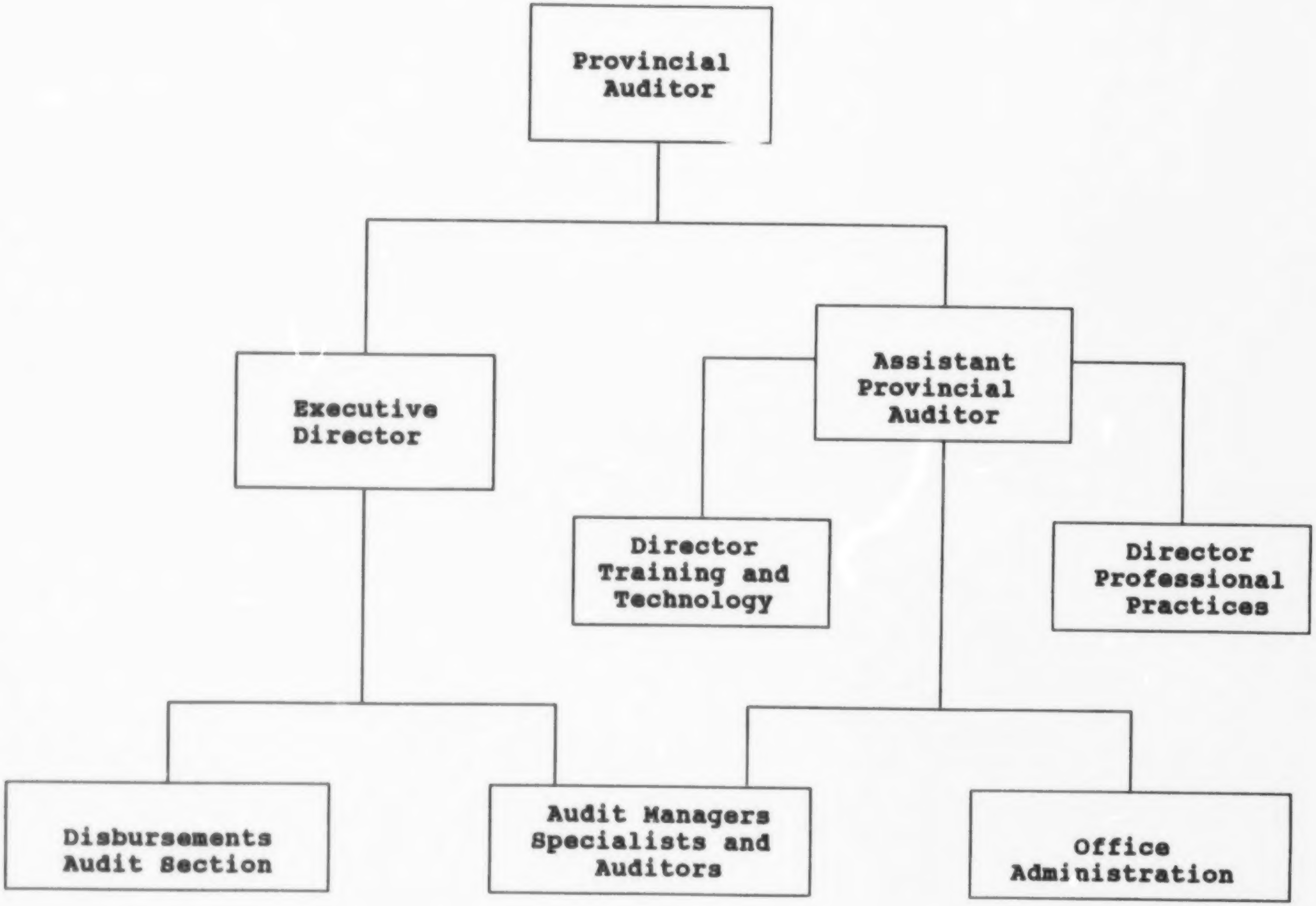
We include significant matters in our annual Report to the Legislative Assembly. Generally, these matters have been reported to ministers and chairpersons of the boards of Crown agencies and have not been resolved within a reasonable period of time. However, we may also include in the Report significant matters which may be reported for the first time or significant matters which have been resolved. These matters are of a kind which in the Provincial Auditor's judgement warrant the attention of the Assembly as information, either because they were raised in the Assembly, or a committee of the Assembly, or for reasons of maintaining confidence in the system. Both the problems and the corrective actions are reported.

Section 13(5) of The Provincial Auditor's Act also provides that a special report may be made to the Legislative Assembly. In determining whether we should develop a special report, we evaluate the criticality of the issue. If we conclude that a matter is of pressing importance or urgency that requires special attention and action by the Assembly, a special report will be made. During the fiscal year ended March 31, 1989 there were no matters which we considered requiring special reporting.

Exhibit 3

OFFICE OF THE PROVINCIAL AUDITOR

ORGANIZATIONAL CHART


Provincial Auditor
Executive Director
Assistant Provincial Auditor
Director Training and Technology
Director Professional Practices
Disbursements Audit Section
Audit Managers Specialists and Auditors
Office Administration

SCHEDULE OF CROWN AGENCIES WHOSE FINANCIAL STATEMENTS WERE AUDITED AND REPORTED ON BY THE PROVINCIAL AUDITOR'S OFFICE

Exhibit 4

Name of Organization	**Fiscal Year Ended**
Alcoholism Foundation of Manitoba	March 31, 1989
Board of Administration under The Embalmers and Funeral Directors' Act	December 31, 1988
Brandon University	March 31, 1989
Brandon University Holding Company	March 31, 1989
Brandon University Retirement Plan	December 31, 1988
Centre Culturel Franco-Manitobain	March 31, 1989
Channel Area Loggers Ltd.	March 31, 1989
Civil Service Superannuation Fund	December 31, 1988
Communities Economic Development Fund	March 31, 1989
Co-operative Loans and Loans Guarantee Board	March 31, 1989
Co-operative Promotion Board	March 31, 1989
Criminal Injuries Compensation Board	March 31, 1989
Habitat Heritage Corporation	March 31, 1989
Horse Racing Commission	March 31, 1989
Leaf Rapids Town Properties Ltd.	March 31, 1989
Legal Aid Services Society of Manitoba	March 31, 1989
Liquor Control Commission	March 31, 1989
Manitoba Agricultural Credit Corporation	March 31, 1989
Manitoba Arts Council	March 31, 1989
Manitoba Beef Commission	March 31, 1989
Manitoba Centennial Centre Corporation	March 31, 1989
Manitoba Crop Insurance Corporation	March 31, 1989
Manitoba Data Services Commission	December 31, 1988
Manitoba Development Corporation	March 31, 1989
Manitoba Hazardous Waste Management Corporation	December 31, 1988
Manitoba Health Research Council	March 31, 1989
Manitoba Health Services Commission	March 31, 1989
Manitoba Hospital Capital Financing Authority	March 31, 1989
Manitoba Housing and Renewal Corporation	March 31, 1989
Manitoba Intercultural Council	March 31, 1989
Manitoba Lotteries Foundation	March 31, 1989
Manitoba Mental Health Research Foundation	March 31, 1989
Manitoba Milk Prices Review Commission	March 31, 1989
Manitoba Mineral Resources Ltd.	December 31, 1988
Manitoba Research Council	March 31, 1989
Manitoba Training Advisory Council Inc.	March 31, 1989
Manitoba Trading Corporation	March 31, 1989
Manitoba Water Services Board	March 31, 1989
Moose Lake Loggers Ltd.	March 31, 1989
Municipal Employee Benefits Fund	December 31, 1988
Public Investments Corporation of Manitoba	December 31, 1988
Public Schools Finance Board	December 31, 1988

SCHEDULE OF CROWN AGENCIES WHOSE FINANCIAL STATEMENTS WERE AUDITED AND REPORTED ON BY THE PROVINCIAL AUDITOR'S OFFICE

Exhibit 4

Name of Organization	**Fiscal Year Ended**
Public Service Group Insurance Fund	April 30, 1988
Public Trustee of Manitoba	March 31, 1989
Superannuation Resources Investment Corporation of Manitoba Inc.	December 31, 1988
Teachers' Retirement Allowances Fund	December 31, 1988
Teachers' Retirement Resources Investment Corporation of Manitoba Inc.	December 31, 1988
Universities Grants Commission	March 31, 1989
University of Manitoba	March 31, 1989
University of Manitoba Pension Plans	December 31, 1988
University of Manitoba Research Ltd.	March 31, 1989
University of Manitoba Research and Development Ltd.	March 31, 1989
University of Winnipeg	March 31, 1989
University of Winnipeg Pension Plan	December 31, 1988
Venture Manitoba Tours Ltd.	March 31, 1989
Westarc Group Inc.	March 31, 1989
Workplace Innovation Centre	March 31, 1989

Exhibit 5

SCHEDULE OF DEPARTMENTAL FUNDS WHOSE FINANCIAL STATEMENTS WERE AUDITED AND REPORTED ON BY THE PROVINCIAL AUDITOR'S OFFICE

Name of Organization	Fiscal Year Ended
Department of Municipal Affairs - Ministers' Trust Account	March 31, 1989
Fiscal Stabilization Fund	March 31, 1989
Northern Affairs Fund	March 31, 1989
Manitoba Text Book Bureau	March 31, 1989

Exhibit 6

SCHEDULE OF CROWN AGENCIES WHOSE FINANCIAL STATEMENTS WERE AUDITED BY PRIVATE-SECTOR AUDIT FIRMS WITH AN OVERVIEW AUDIT BY THE PROVINCIAL AUDITOR'S OFFICE

Name of Organization	Fiscal Year Ended
A. E. McKenzie Co. Ltd. and Subsidiaries	October 31, 1988
Credit Union Stabilization Fund	December 31, 1988
Deer Lodge Centre Inc.	March 31, 1989
Fonds de Sécurité des Caisses Populaires	December 31, 1988
Manitoba Boxing and Wrestling Commission	March 31, 1989
Manitoba Energy Authority	March 31, 1989
Manitoba Hydro-Electric Board	March 31, 1989
Manitoba Properties Inc.	January 31, 1989
Manitoba Properties Leasing Inc.	December 31, 1988
Manitoba Properties Management Inc.	December 31, 1988
Manitoba Public Insurance Corporation	October 31, 1988
Manitoba Telephone System	December 31, 1988
Workers Compensation Board	December 31, 1988

Exhibit 7

Manitoba

Finance

Comptroller's Division

709 Norquay Building
Winnipeg, Manitoba, CANADA
R3C 0P8

October 18, 1989

Honourable Clayton Manness
Minister of Finance
103 Legislative Building
Winnipeg, Manitoba

Dear Sir:

Section 19 of the Provincial Auditor's Acts states:

> "A qualified auditor nominated by the Executive Council or a committee thereof shall examine the receipts and disbursements of the Office of the Provincial Auditor and shall annually make a report of the outcome of the examination to the assembly which shall be submitted to the member of the Executive Council charged with the administration of the Financial Administration Act on or before the last day of December next following the end of the fiscal year of the government to which the report relates."

My division now performs this audit on a regular basis. Under my direction, an auditor from Financial and Management Systems Branch has conducted an audit of the Provincial Auditor's Office for the year ended March 31, 1989.

The audit was limited to a general review of the accounting procedures and accounting records of the Provincial Auditor's Office. Such tests were performed as were considered necessary in the circumstances.

In my opinion, the accounts of the Audit Office are maintained in an efficient, well organized manner and comply with all the requirements of the Financial Administration Act and all other applicable statutes.

Yours truly,

E. Rosenhek, C.A.

E. Rosenhek
Comptroller

cc: F.H. Jackson